ENERGY
SAVINGS INCOME FUND

ANNUAL REPORT 2003

"IT WAS A YEAR OF VOLATILITY,

RAPID GROWTH AND,

IN THE END,

EXCEPTIONAL RETURNS."

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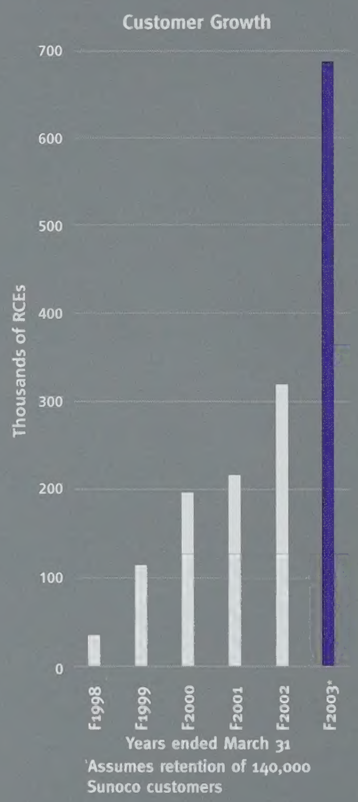
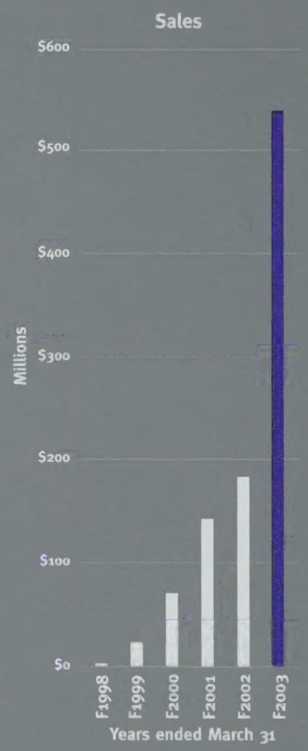
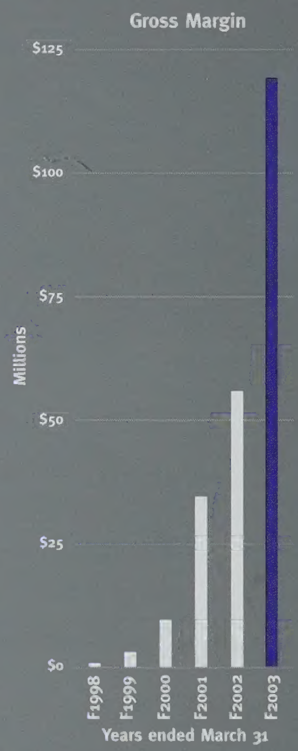
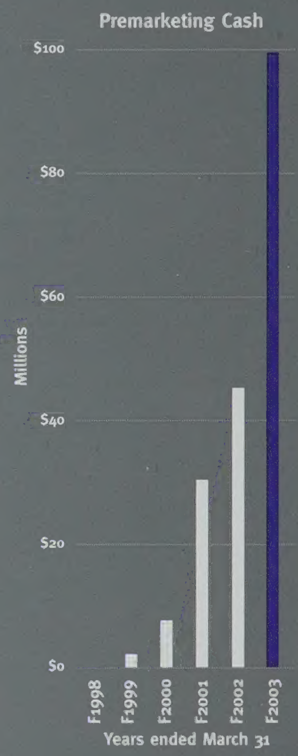
FUND PROFILE

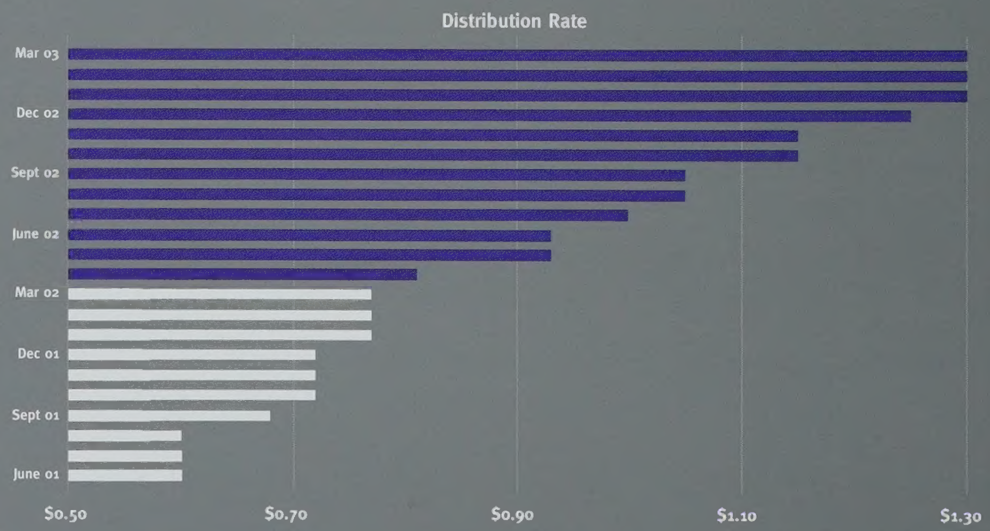
The Energy Savings Income Fund is an open-ended, limited-purpose trust established under the laws of Ontario to hold the securities and to distribute the income of its wholly owned subsidiary, Ontario Energy Savings Corporation (OESC). Through OESC, Energy Savings markets natural gas to residential customers and small to mid-sized commercial businesses in Ontario and Manitoba. Energy Savings also markets electricity to mid-sized commercial and small industrial Ontario customers. These customers can range anywhere from convenience stores, franchise restaurants to small manufacturers. The Fund meets the estimated energy requirements of its customers by purchasing matching volumes for gas and electricity. Customers eliminate their exposure to price escalations and the Fund locks in its margins by entering into long-term, fixed-price contracts. Energy Savings is Canada's second largest energy retailer. It trades on the Toronto Stock Exchange under the symbol SIF.UN.











2002·2003 HIGHLIGHTS

During the year, more than 260,000 residential customer equivalents chose to switch to Energy Savings from Enbridge Consumers' Gas, Union Gas or their local electricity utility.

Energy Savings' customer base grew from 320,000 to 690,000 – including 140,000 expected additions through the Sunoco acquisition – representing year-over-year internal growth of 72% and total growth of 116%.

The new customers were added without any disruption in the quality of our customer service or our back office processing.

Compared to fiscal 2002, results for fiscal 2003 were:

- **Sales up 193%**
- **Gross margin up 115%**
- **Distributable cash up 109% (83% per unit)**
- **Distributions paid up 106% (80% per unit)**

The annual distribution rate increased six times from $0.815 per unit at the end of fiscal 2002 to $1.30 per unit at year-end 2003.

Our first customers completed their initial five-year contract term. During the term, they saved on average more than $900 versus what they would have paid on the utility floating rate.

Based on a total return of 258% to March 31, 2003, Energy Savings has been the best performing Income Fund in Canadian history. Our return to Unitholders in fiscal 2003 was 44%.

COMPOUND ANNUAL GROWTH RATE

	1-Year	2-Year	3-Year	4-Year
Sales	193%	95%	96%	118%
Gross Margin	115%	87%	134%	147%
Premarketing Cash	109%	82%	137%	166%

MESSAGE
FROM THE CEO

MY FELLOW UNITHOLDERS,

LET US REFLECT ON THE YEAR JUST PASSED, OUR FISCAL YEAR ENDED MARCH 31, 2003. IT WAS A YEAR OF VOLATILITY, RAPID GROWTH AND, IN THE END, EXCEPTIONAL RETURNS.

We have seen tremendous growth in our Company, going from 217,000 customers at the time of our IPO to 320,000 in our last annual report. At the end of March, we had grown to more than 690,000 customers, fully allowing for expected attrition from the customers we acquired from Sunoco earlier this year.

The absorption of the Sunoco business was a major challenge. We were concerned that large numbers of customers added in one lump would severely tax our customer service and contract management systems. In the end, the transition went very smoothly with a minimum of headaches. Sunoco had been spending $8 million per year administering the customers. I am proud to say that, including systems upgrade costs, we absorbed the book for less than one quarter of this amount.

Let us look back at our accomplishments in each business unit:

NATURAL GAS

I want to highlight the fact that this year saw the first renewals of our earliest signed business from August 1997. These customers saw not only the stability and predictability they contracted for but also generated substantial savings.

Many times, our five-year price to the new customer is higher than the prevailing utility floating rate price. Accordingly, our sales pitch is not certainty of savings but rather certainty of price. Most households are on a budget, and budgeting is much easier if you know exactly what your costs will be going forward. Accordingly, many consumers choose five-year fixed-rate mortgages and five-year commodity contracts as a method of locking in the most material monthly expenses of the household. This eliminates the risk of "budget-blowing" bills during the gas and electricity price spikes which have been all too common in the recent past.

However, our customers did save. Of customers who have completed five-year contracts with Energy Savings, an average customer in Enbridge Consumers' Gas territory saved $915 over the term of their contract, and an average customer in Union Gas territory saved $974. Neighbours of these customers who remained on the utility floating rate throughout the period paid greater than 50% more for their gas supply over the five-years. Little wonder that effectively all these customers renewed with Energy Savings for a second term.

ELECTRICITY

A major event of fiscal 2003 was our entry into a second major market, Ontario electricity. I can safely characterize the electricity experience as a roller coaster. Our first task was to bring on board the best and most knowledgeable electricity management team available in the Ontario market. Paul DeVries and his team came aboard

early in the year and quickly put in place the cutting edge systems necessary to manage electricity supply and bill customers under a stable price contract.

We began electricity marketing in May 2002, having set what we believed to be an aggressive target of 120,000 new customers for the fiscal year. Six months later, we had already exceeded the target with 154,000 customers signed and we had barely begun marketing to residential homeowners.

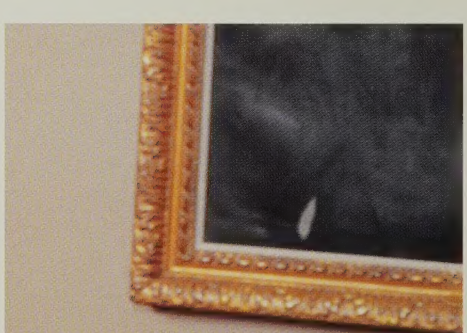
On November 11th, the government completely changed courses, re-regulating the market and fixing prices at a below-market $0.043 per kwh. Unable to buy any power at or below this price, we ceased marketing. Our unit price fell almost 25% in value on the news – based on expectations of slower growth.

Then right at our fiscal year-end, the Government advised that about 2.5 million customer equivalents within our target market would remain under deregulation. While we did not have time to add any flowing new customers before year-end, we know this will be a high-growth potential market for the coming year.

NEW MARKETS

We entered our first non-Ontario market late in the year. Manitoba is an ideal test of our systems and expansion model. To date, it has gone very well and we are looking further afield to larger markets for our next expansion.

As you may be aware, management has publicly set targets for growth of our business both in the past and for fiscal 2004. Last year's annual report showed that our operating results for fiscal 2002 substantially exceeded our prospectus forecast in every material area. We subsequently set targets for each of gas and electricity aggregation as well as margins per customer for fiscal 2003. The Company met or exceeded these targets as well. To my knowledge, we have beaten every



independent analyst forecast of our financial results. We have set substantial growth targets for fiscal 2004 which would see our customer base grow beyond 800,000. We have a platform in place to realize this goal and a single-minded focus to meet or exceed it.

For our Unitholders, the rewards of fiscal 2003 came in a number of fashions.

Our revenue and cash flow growth both exceeded 100% year over year. As you are all aware, this type of growth is unprecedented in the Income Trust sector. One happy result of this was exceptional returns to our Unitholders for the second straight year. Our fiscal 2003 total return of 44% was the highest of any fund included in the S&P TSX Income Trust Index over the same period. Our total return over the 23 months we have been public is 258%, the best return of any fund in Canadian history.

We raised our distributions six times during the year, going from $0.815 per annum to $1.30 at year-end. This made a total of 10 distribution increases in 23 months of public trading. We have announced two subsequent increases since year-end.

In today's skeptical markets, one thing we are proud of is the transparency of our cash accounting disclosure. It is very easy for our investors to see how we are doing. We have a relatively simple business that generates very predictable distributable cash. We take a portion of this distributable cash and use it to fund the continued growth of our business. We take a substantial portion and pay it out to our Unitholders. We leave some in the company as a cash buffer for quarter to quarter variations.

There has been much speculation in the press that income trusts represent an investment "bubble". Let me take this straight on. Cash generation is the purpose of business. This cash can be reinvested to make high returns or else it can be paid out to investors. We do both. It is hard to imagine some future "change of investment heart" which will penalize high growth, high rates of return on investment, combined with substantial and growing cash distributions paid out to investors on a monthly basis.

As I stated about fiscal 2002 in our last annual report, our very successful fiscal 2003 is now part of the past. It is our firm intention to continue to reward our customers, employees and Unitholders in the years to come.

Rebecca MacDonald
CHAIR & CHIEF EXECUTIVE OFFICER

OUR PRODUCT

Q. Am I guaranteed savings if I sign up for your gas or electricity programs?
A. No, but history indicates that both gas and electricity prices have been very volatile. Existing customers have saved substantial amounts over the term of their contracts. However, future savings will depend on the direction of commodity prices. What we do guarantee is no surprises. Your price will be as contracted every month for five years.

Q. What is the difference between your natural gas offering and your electricity offering?
A. With gas, the customer buys all gas consumed at a fixed price. With electricity, the customer buys approximately 95% of projected demand at a fixed price, with any volume shortfall or excess purchased or sold at market price.

Q. Why should I switch to Energy Savings from my Local Distribution Utility (Enbridge Consumers or Union)?
A. Customers want stability and the ability to accurately budget their household costs. With a five-year fixed-price commodity contract, you have this stability plus protection against any future increases in commodity prices.

Q. How can we trust that you will deliver our gas or electricity as contracted?
A. Energy Savings has operated since 1997. In that period, we have never missed a delivery to a single customer. Effectively all of our commodity is purchased from Shell Trading (*a AAA rated supplier*). Financially, Energy Savings is a substantial entity with a market capitalization of over $800 million.

Q. We have had a very cold winter. How does this effect your business?
A. We supply commodity as directed by the local utility based on long-term average consumption. We are then required, over time, to balance against actual consumption. In the case of a cold winter such as that just experienced, we would (over time) supply more gas, reflecting the higher consumption. To the extent that this supply is at a cost higher or lower than our customer contract price, we have some small incremental loss or gain. Our $2.5 million balancing provision shown within our MD & A is an estimate of the future costs as we balance.

FREQUENTLY ASKED QUESTIONS

"ENERGY SAVINGS IS A UNIQUE INCOME FUND. BECAUSE WE GENERATE IN EXCESS OF 100% ANNUAL RETURN ON CASH INVESTED IN MARKETING, WE ARE ABLE TO BOTH GROW THE BUSINESS AND PAY OUT SUBSTANTIAL CASH."

OUR UNITS ON THE TSX

Q. Why are you an Income Fund if you grow so rapidly?
A. Energy Savings is a unique Income Fund. Because we generate in excess of 100% annual return on cash invested in marketing, we are able to both grow the business and pay out substantial cash.

Q. Are your distributions guaranteed?
A. No. They are a function of operating results of our business and can vary with those results. Company policy is to only increase the distribution rate if, in the estimation of management, the amount is sustainable even if Energy Savings does not have any future net increase in customers. As of year-end, Energy Savings had approximately six months of distributions in cash.

Q. How many Units or equivalents are there in Energy Savings?
A. As of March 31, 2003 we had the following:

Trust Units outstanding	**43,019,267**
On conversion of all outstanding Preference Shares	**6,836,421**
Unit Equivalents receiving distributions	**49,855,688**
On exercise of all outstanding Unit Options	**1,826,767**
Total Fully Diluted Units	**51,682,455**

Q. How can you pay out $1.30 per year in distributions when you do not earn that much per unit?
A. Our reported earnings have been reduced by a substantial annual non-cash amortization reducing the book value of our customer base. In fact, we ended each year with a substantially higher number of customers under contract and higher cash flows from those customers. Accordingly, we believe cash generated is a better measure of distribution capability than accounting net income.

Q. Energy Savings does not currently pay Federal Income Tax. When do you expect to be taxable?
A. Management does not expect that OESC will pay tax until fiscal year-end March 2005, although this could change depending on results of operations and/or changes to the Tax Act.

Q. Why do you not increase returns through leverage?
A. We believe an unlevered business results in a more predictable financial performance. Interest rates are inherently volatile and the ability to refinance is never a certainty. Unitholders are free to introduce their own leverage if they so desire.

Q. Does the recent volatility in gas prices affect profitability?
A. Because we are matched between our supply and our customers' demand, changes in gas price have very little effect on our financial results.

Q. What are your future sources of growth?
A. We believe the Ontario gas market remains a source of continued growth. In addition, new geographic markets, possible acquisitions and the reopening of the Ontario electricity market will all contribute to growth in coming years.

Q. What percentage of the Ontario gas market is still available?
A. We estimate that approximately 50% of Ontario customers take their gas from a deregulated supplier leaving approximately 1,400,000 customers available. Over and above this, we estimate that a further 300,000 customers become available annually from real estate lists (customers that move go back to default supply), and in new subdivisions.

"OVERALL, FISCAL 2003 WAS A VERY SUCCESSFUL YEAR FOR ENERGY SAVINGS. THE SOLID TEAM OF EMPLOYEES BEHIND THE SCENES WAS INSTRUMENTAL BOTH IN THAT SUCCESS AND THE BRIGHT FUTURE WHICH LIES AHEAD FOR YOUR FUND."

Energy Savings operates in the de-regulated natural gas market within Ontario and Manitoba and the electricity market within Ontario. Ontario was a pioneer in utility deregulation, having opened the natural gas market in 1988.

OESC was formed in 1997 to offer five-year fixed-price gas programs to residential and small to mid-sized commercial and industrial customers. The Company's product has remained effectively the same over the six years of its existence. The introduction of a five-year price-protected electricity product during fiscal 2003 was a significant new offering consistent with the core strength of the business – *providing the customer with stability in commodity costs through the direct sale of back-to-back matched contracts.*

THE ONTARIO NATURAL GAS MARKET

OESC operates within the natural gas industry under the OEB mandated direct purchase regulatory framework. The direct purchase market for natural gas is divided into two principal segments: large-volume customers (industrial and other large-volume commercial end-users) and residential and small commercial customers. The larger-volume user market is highly price sensitive. These users generally

THE COMPANY



OESC OPERATES WITH A SIMPLE THREE-STAGE BUSINESS MODEL. THIS MODEL IS ENTIRELY CONSISTENT WITH OUR CONSERVATIVE, DISCIPLINED APPROACH.

either contract directly with producers or aggregators or enter into short-term price competitive contracts with wholesalers. OESC does not supply this market.

OESC and its competitors focus on the residential/small commercial market. Because the commodity portion of the average annual natural gas supply bill for these customers is less than $1,000, it takes the combined demand of a large number of these small-volume customers to justify direct purchase contracts. The ability to obtain large numbers of customers at a reasonable cost is therefore a key ingredient in the success of a natural gas residential and small commercial retailer such as OESC. A key to the success of OESC's offering is the attractiveness of fixed-price contracts to residential users. Similar to a fixed-rate mortgage, these contracts allow customers to fix their natural gas costs for the term of the contract.

As can be seen by the maps on page 23, Energy Savings is a well-accepted brand name throughout Ontario. Our late start (1997 – more than nine years after deregulation) has limited our penetration of the Toronto market which had already been heavily canvassed by our competitors. However, our exceptional group of agents have more than made up for this through hard work covering effectively all the smaller communities serviced by gas in the province. This marketing focus and proven capability will be key to our success in the "Greenfield" electricity market.

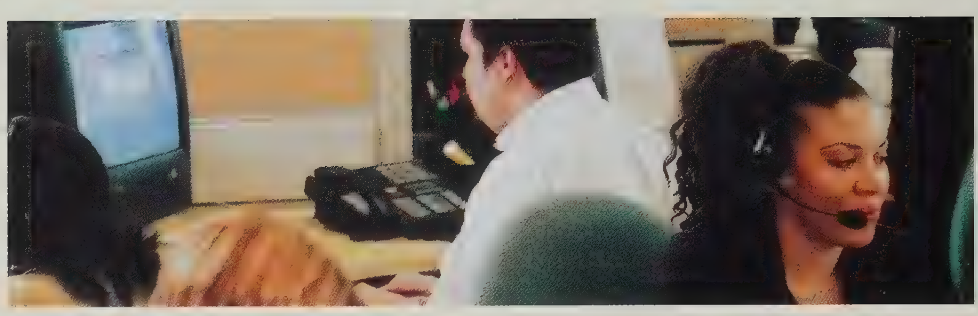
ONTARIO ELECTRICITY MARKET

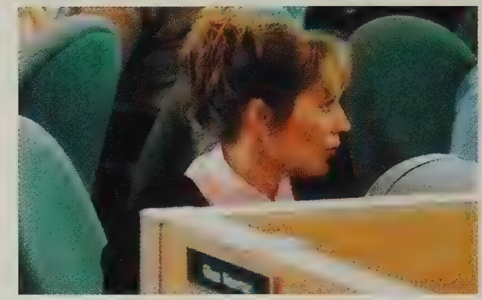
Approximately 154,000 of Energy Savings' 690,000 customers at year-end have fixed-price electricity contracts. These customers protect against volatility in commodity prices by purchasing a fixed amount of electricity (approximately 95% of their expected usage) at a fixed price. Because, unlike gas, electricity cannot be stored, the customer bears the cost of actual consumption variance, although such variance has to date been insignificant on average.

With the re-regulation of all small-volume users in the province effective November 11, 2002, our customers who fall into this group are guaranteed a rate of $0.043 per kwh, substantially less than our five-year price. The government has made arrangements to keep Energy Savings whole on contracted margins for small volume customers signed prior to November 11th. After this date, no further small-volume users can be signed to long-term arrangements.

Accordingly, effective November 11th, Energy Savings suspended its electricity marketing campaign. Following clarification of the status of large volume users (in our target market – convenience stores, franchise restaurants and other mid-sized businesses as well as small industrial customers), on March 21, 2003 the government announced that these users would not be subject to the price cap reopening this very significant market to competitive offers. Energy Savings restarted marketing to these customers immediately.

The estimated size of the new electricity target market is approximately 2.5 million residential customer equivalents. As about 60% of the 154,000 customers signed during the year by OESC fall into this target market, the Company is very confident that renewed marketing efforts will be successful.





BUSINESS MODEL

In both gas and electricity, OESC operates with a simple three-stage business model. This model is entirely consistent with our conservative, disciplined approach.

First, we utilize our experience in direct marketing to estimate the expected number of customers who will accept an OESC package based on the current five-year gas or electricity price.
We develop an offering package based on this analysis.

The second step is to immediately contract with Shell Trading for sufficient five-year commodity supply to match a one to two months marketing effort, based on our estimation.

The third step is to send approximately 250 sales agents out into the field with the new package. They market until the supply is exhausted, at which time the entire process is repeated.

We manage this plan with a very disciplined approach. First, by always contracting for supply before marketing, we eliminate exposure to rapid rises in gas or electricity prices. To the extent that we find ourselves with a long position that the agents cannot sell within the projected time frame, our policy calls for the immediate sale of the commodity. OESC does not speculate on commodity prices. Our sales agents have consistently shown the ability to sell the projected number of contracts without exposing the Fund to potential losses from having excess supply.

MARKETING

Customers are solicited on a door-to-door or pre-appointment basis by our independent commission agents. During marketing campaigns, our agents are often able to sign up new customers representing more than 5,000 Residential Customer Equivalents per week. The gross margins from new customers begin to be realized three to four months after sign-up, when natural gas or electricity begins to flow to the customers. This delay is due to administrative procedures carried out by the LDCs. OESC's costs for obtaining a new residential customer currently include commissions payable to the independent commission agents, the costs of printing contracts, bonus awards, advertising costs and the costs

of promotional materials. Currently, costs are expected to average $140 for each new gas customer signed and $85 for each new electricity customer signed. This compares to annual margin targets over five years of $170 for gas and $100 for electricity per year. The Company budgets $40 for each renewal of a customer who has completed his or her five-year contract.

Approximately 50% of residential gas customers in Ontario have taken advantage of the direct purchase fixed-price, fixed-term arrangements offered by marketers such as OESC. Accordingly, approximately 1.4 million Ontario residential and small to mid-size commercial customers are currently available to OESC and its competitors. In addition, based upon past history, approximately 80,000 new customers are added to the gas distribution network by the LDCs each year in Ontario.

The Company experiences approximately 7% attrition in its customer base annually, largely due to customers relocating. Customer relocations in Ontario are a further source of more than 220,000 possible new contracts annually. OESC's agents utilize real estate lists to identify potential target homes.

COMPETITION

The Company competes in the natural gas and electricity wholesale markets with other marketers. The Company does not view the LDCs and local electricity utilities as true competitors, but rather as a supplier of last resort for customers. The regulated LDCs are currently not permitted to offer long-term contracts or to make a profit on the sale of the commodity to their regulated customers.

With respect to marketers supplying residential and small to mid-sized commercial customers, the Company's largest and most active competitor is Direct Energy Marketing Limited, which is owned by Centrica plc. Other competitors have a much smaller customer base than OESC and are currently inactive. Only Direct Energy Marketing Ltd. has more customers in the Ontario market than the company.

Management believes that the Company has significant competitive advantages over other marketers in that it has: (i) large size relative to most direct marketers; (ii) industry credibility, which has grown over time; (iii) the ability to aggregate significant numbers of new customers; (iv) a proven ability to purchase long-term gas and electricity on favourable terms; (v) never failed to supply gas or electricity to any customer; and (vi) excellent relationships with its customers and suppliers.

DURING MARKETING CAMPAIGNS, OUR AGENTS ARE OFTEN ABLE TO SIGN UP NEW CUSTOMERS REPRESENTING MORE THAN 5,000 RESIDENTIAL CUSTOMER EQUIVALENTS PER WEEK.

The Company's industry credibility is based on the long-term experience of its management team relating to the deregulation of natural gas and electricity and their innovations in providing consumer choices within the direct purchase market.

MATCH POSITION

OESC enters into supply contracts with gas and electricity suppliers (mainly Shell Trading) to purchase commodity in order to meet supply obligations to its customer base and to fix its margins. OESC purchases commodity in large volumes on a wholesale basis and is therefore able to secure favourable long-term fixed-price supply contracts. By following a policy of purchasing all of its estimated customer supply obligations in advance, the Company is able to achieve stable and predictable cash flows.

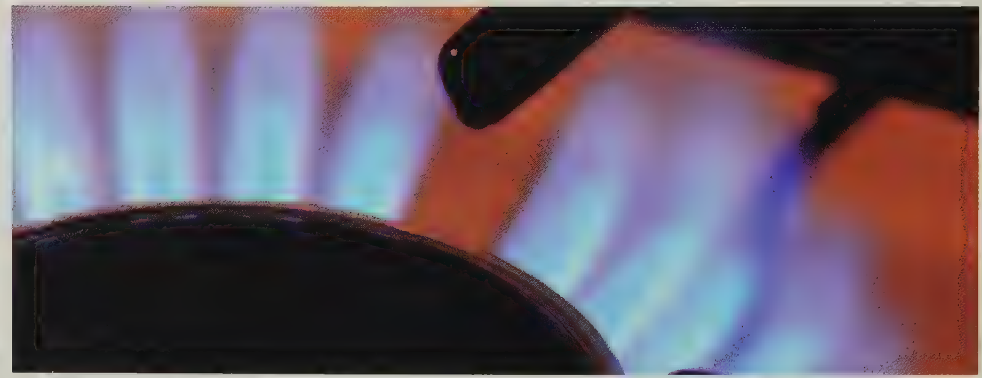
Shell Trading, an affiliate of Shell Oil, has been the pre-dominant supplier of natural gas to OESC. Shell Trading also assists OESC in managing and balancing its gas requirements. With Energy Savings' entry into the Ontario electricity market, the relationship with Shell Trading has expanded to include electricity purchases.

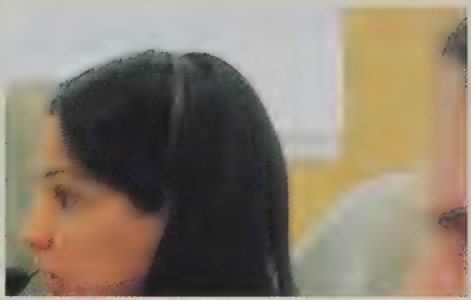
OESC is fully matched between its commodity supply and its customer demand for both natural gas and electricity. Careful monitoring and maintenance of this matched position is one of the most important management tasks undertaken by the Company.

THE ENERGY SAVINGS TEAM

The Energy Savings customer base has grown very rapidly since the Fund's IPO twenty three months ago. Internal growth has seen a 217,000 customer base grow to 550,000. The Sunoco acquisition added a further 140,000 customers. Distributable cash flow has gone from $8 million in 2000 to $30 million in 2001 to $48 million last year and $100 million in fiscal 2003.

Managing a tripling of our customer base in two years and a doubling of our cash flow annually has been a great challenge. While we had solid systems in place at the time of the IPO, entrance into the new electricity market required a whole new set of systems and personnel.





The impact on our back office was substantial. Last year, call volumes in our customer service centre tripled. As well, we processed more than twice as many contracts as we ever had before. The number of agents and agent payroll were 50% higher than ever before. These challenges were met with impressive results by our team of employees.

The efforts of our sales staff, supported by quality agent training, sophisticated systems and the tremendous efforts of our customer service staff, allowed us to handle record new customer volumes while, at the same time, cutting our customer complaints per contact by 40% year over year.

Our contract management and commodity procurement staff not only handled record commodity volumes but also generated margin per customer ahead of Company targets in both gas and electricity. Our staff in charge of gas balancing managed a very severe winter, generating a net profit on excess gas purchased to meet increased customer demand.

Overall, fiscal 2003 was a very successful year for Energy Savings. The solid team of employees behind the scenes was instrumental both in that success and the bright future which lies ahead for your Fund.

"MANAGING A TRIPLING OF OUR CUSTOMER BASE IN TWO YEARS AND A DOUBLING OF OUR CASH FLOW ANNUALLY HAS BEEN A GREAT CHALLENGE."

"OUR INTERNAL POLICY IS TO LET ANY RESIDENTIAL CUSTOMER TERMINATE HIS OR HER CONTRACT FOR ANY REASON UP TO 30 DAYS AFTER RECEIPT OF THE FIRST BILL AT OUR FIVE-YEAR PRICE. IN EFFECT, THE CUSTOMER HAS A 90-DAY WINDOW AND SEVERAL OPPORTUNITIES TO CANCEL THE CONTRACT, NO QUESTIONS ASKED."

No company providing a service to the residential homeowner can be successful in the long term without integrity of the sales process and the delivery of value. Our contracts are sold door-to-door. Why? There is a simple answer – ease in explaining a complex product and lower cost to the customer.

Natural gas and electricity are major annual household expenses. The prices of both commodities are extremely volatile. The result tends to be shocking bills, which often come at a time when the customer can least afford it.

The public wants stability. This is the basis for many common insurance-type products, the most common being the five-year fixed-rate mortgage. Our product, five-year fixed-price commodity supply is an extension of this product group. Unlike the long-term mortgage which has been an available consumer choice for decades, fixed-rate commodity supply is a relatively new concept.

Participants in the industry have found that merely advertising the availability of the product and awaiting customer demand, results in aggregation costs that are three to five times higher than the cost of direct marketing. As with all businesses, the cost of customer acquisition must be passed through to the consumer.

OUR CUSTOMERS

Energy Savings markets exclusively through door-to-door sales and believes its customer aggregation costs are the lowest in the industry. For Unitholders, this means we can offer a competitively priced offering to the public, while maintaining exceptional profitability as seen in the Company's operating performance to date.

What we offer the consumer is stability. While our customers can and have saved money through fixing their supply cost, there can be no assurance that a customer signing today will realize savings. What they will realize is stability of price and the ability to budget with confidence. Given volatile costs, this predictability is very important to many consumers.

INTEGRITY OF THE SALES PROCESS

Because we sell door-to-door through commissioned agents, the product of a successful sale is a signed five-year contract for gas or electricity. We believe this contract is only valid if it was entered into properly. Key to customer protection is ensuring that the program was clearly explained to the customer by the agent prior to signing.

We maintain several levels of customer protection, which insures the integrity of the sales process:

- Intensive agent training and strict compliance with Government-mandated Code of Conduct for all agents.
- Clear agent identification as a representative of Energy Savings.
- Clearly written contract, which is left with the customer, detailing all terms and conditions of the commodity supply agreement, and detailing that Energy Savings will be entering into binding back-to-back supply agreements to provide the commodity.
- A separate acknowledgement which all customers must sign, contains no marketing material and clearly spells out in large type:
  1. That the agent represents, and the contract is with, Energy Savings.
  2. That Energy Savings is not associated with the local utility.
  3. That the contract is for five-year supply of gas or electricity at a fixed-price, which is quoted in the acknowledgement.
  4. That the customer has 30 days to cancel any contract under provincial law.
  5. The telephone number and website for the Energy Savings customer service centre.
- After the signed contract and signed acknowledgement are received, our call centre contacts the customer to ensure that they understand the contract and to reaffirm that the customer wishes to take the supply. This call is taped and retained.
- Approximately 60-90 days after signing, the customer's supply begins to flow. Our internal policy is to let any residential customer terminate his or her contract for any reason up to 30 days after receipt of the first bill at our five-year price. In effect, the customer has a 90-day window and several opportunities to cancel the contract, no questions asked.

WE MAINTAIN SEVERAL LEVELS OF CUSTOMER PROTECTION WHICH INSURES THE INTEGRITY OF THE SALES PROCESS

We want a satisfied customer who makes an informed decision to minimize volatility in their commodity costs. Through this carefully planned process, hundreds of thousands of Ontario residents have happily chosen the security of an Energy Savings contract for their gas or electricity requirements.

CUSTOMER SAVINGS

Fiscal 2003 saw the completion of our first five-year customer contracts signed when the Company was formed in 1997. These customers (all of whom signed for less than $0.10 per m^3) realized substantial savings over the term of their contracts.

Our first customers in the Enbridge Consumers' Gas territory signed in August 1997 saved $915 over the 60 months of their contract (based on an average home consuming 3,000 m^3 per year) compared to what they would have paid had they stayed on the Enbridge floating rate supply. Savings for customers in the Union Gas territory for the same period were $974. To put this in perspective, the total amount this average customer paid us over the 60 months for all their gas supply was $1,438. Their neighbours on the floating rate paid over 50% more for their gas supply over the five years.

It is not surprising that effectively all these customers renewed with Energy Savings for a further term. The table following highlights the realized savings for customers completing their full five years in F2003.

"OUR FIRST CUSTOMERS IN THE ENBRIDGE CONSUMERS' GAS TERRITORY SAVED $915 OVER THE TERM OF THEIR FIVE-YEAR CONTRACT. SAVINGS FOR THE UNION GAS TERRITORY CUSTOMERS, FOR THE SAME PERIOD, WERE $974. THEIR NEIGHBOURS ON THE FLOATING RATE PAID OVER 50% MORE FOR THEIR GAS SUPPLY OVER THE FIVE YEARS."

AVERAGE FIVE-YEAR HOUSEHOLD SAVINGS – COMPLETED ENERGY SAVINGS CONTRACTS

Month of First Flow	August 1997	September 1997	October 1997	November 1997	December 1997	January 1998	February 1998	March 1998
Enbridge Consumers' Gas Territory	**$879**	**$870**	**$847**	**$879**	**$911**	**$942**	**$1,015**	**$1,051**
Union Gas Territory	**$902**	**$917**	**$918**	**$949**	**$980**	**$1,011**	**$1,042**	**$1,073**

With natural gas prices rising, our customers are seeing additional savings on each monthly bill. The table below shows the monthly savings being realized by our customers versus the current Enbridge Consumers' Gas price.

CURRENT AVERAGE HOUSEHOLD MONTHLY SAVINGS – BY YEAR SIGNED WITH ENERGY SAVINGS

Year Customer Signed	**F1999**	**F2000**	**F2001**	**F2002**	**F2003**
Average Energy Savings Price	$0.1203	$0.1725	$0.2517	$0.2808	$0.2824
Current Enbridge Price[1]	$0.3027	$0.3027	$0.3027	$0.3027	$0.3027
Monthly Savings	$45.62	$32.56	$12.77	$5.48	$5.08

[1] *The current Enbridge price is $0.266 base rate per m³ plus a $0.0367 rider to offset past shortfalls.*

As months go by, these savings add up, particularly if the gas price continues to rise. As we have noted many times, we do not promise savings – only stability. But savings can and have occurred. This is not surprising with volatile commodities such as gas and electricity.

WE WANT A SATISFIED CUSTOMER WHO MAKES AN INFORMED DECISION TO MINIMIZE VOLATILITY IN THEIR COMMODITY COSTS.

"WE EXPECT TO ENTER TWO TO THREE US STATES DURING FISCAL 2004."

We are a marketing company. Fiscal 2003 saw us diversify into a major new product line as well as enter our first non-Ontario market. Both these steps can only be categorized as tremendous successes. The new markets and the new product offerings that will drive the continued growth of our business is a priority regularly discussed at Energy Savings' Executive Committee meetings.

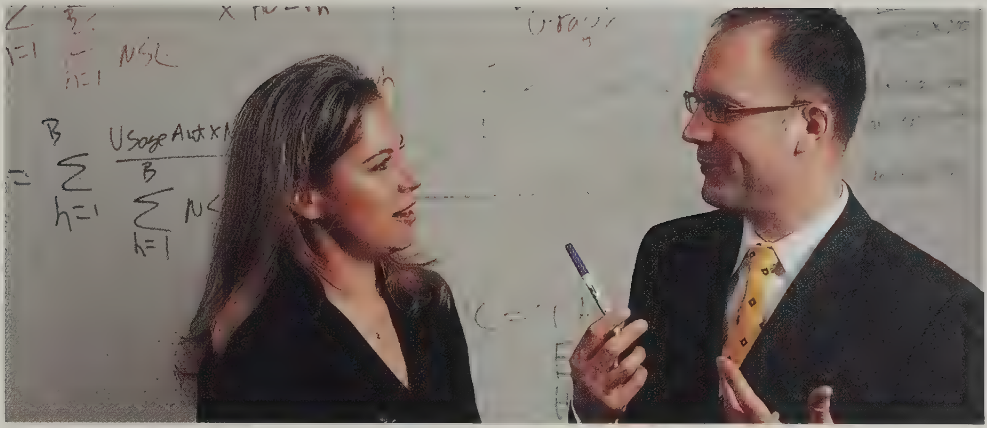
Our proven marketing team has made us the second largest marketer of deregulated gas and electricity in the Province of Ontario. Energy Savings intends to consolidate and build on this position in the coming years. At present, the following opportunities look very real and exciting.

ONTARIO NATURAL GAS

We have steadily grown our customer base and, except for a brief period when we concentrated on aggregating electricity customers, we have consistently generated more than 20,000 new customers per quarter. We see no major change in the market, save for an absence of competitive offerings.

Our published expectation is to add 80,000 new Ontario gas customers in fiscal 2004, less than the 100,000 we aggregated in fiscal 2003 but consistent

GROWTH OPPORTUNITIES



FISCAL 2003 SAW US DIVERSIFY INTO A MAJOR NEW PRODUCT LINE AS WELL AS ENTER OUR FIRST NON-ONTARIO MARKET. BOTH THESE STEPS CAN ONLY BE CATEGORIZED AS TREMENDOUS SUCCESSES.

with our past conservative forecasting. With the current Enbridge Consumers' Gas price above $0.30 per m³, our agents are reporting excellent receptivity to our current five-year offering.

ONTARIO ELECTRICITY

One word describes the Ontario deregulated electricity market – volatility. The market opened with fanfare, closed with disappointment, and partially reopened with cautious optimism. Customers have seen the higher prices that were inevitable after more than 10 years of price freezes. Their response was predictable – more than a million customers jumped to five-year fixed price offerings.

The smaller companies within the large-volume user market segment (convenience stores, franchise restaurants), which is still deregulated, have been among the most receptive to fixed-price programs. More than 60% of our customers signed during fiscal 2003 were in this category, and we fully expect continued sales success for this market.

Because this is a new market, we have set a conservative target of 80,000 new customers in fiscal 2004.

OTHER JURISDICTIONS

Just prior to the end of fiscal 2003, we entered our first market outside of Ontario, the Manitoba natural gas market. While this market is small, it is an ideal test for expansion template. Our plan is to grow new markets from an Ontario base, keeping our back office and customer service centralized at the head office.

While it is early, to date the Manitoba experience has been very positive and we have targeted the addition of 12,000 new customers during fiscal 2004.

We are moving into other markets. At the time of writing, Energy Savings is in the process of applying for licences in three U.S. states. We expect to enter two to three states during fiscal 2004 and have

a number of other states and provinces on our radar screen. We have not set any 2004 aggregation targets in these new markets, and do not expect to do so until after the commencement of marketing.

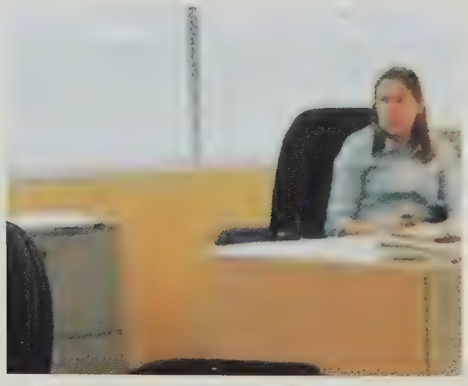
OPPORTUNISTIC ACQUISITIONS

The on-again, off-again regulatory environment surrounding Ontario electricity was the final straw for a number of competitors in both the electricity and gas market in Ontario. Several have ceased active marketing.

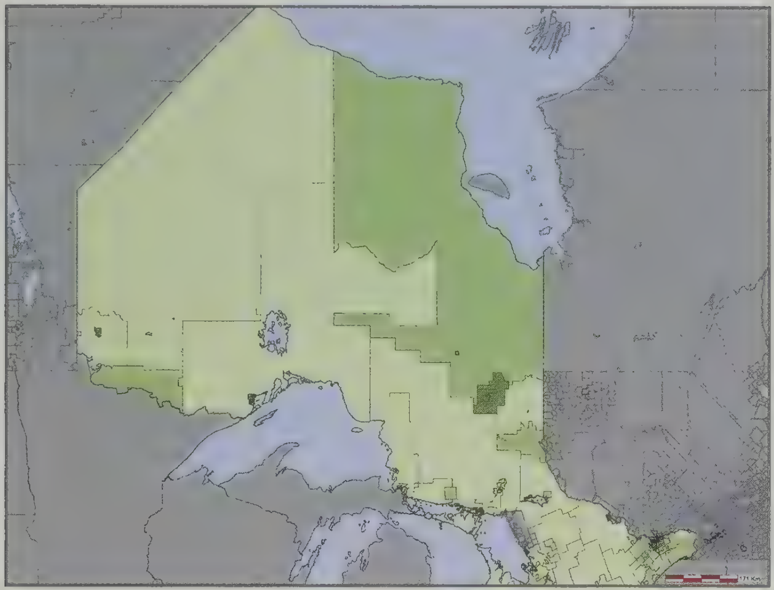
Energy Savings actively reviews all customer books that become available. Our advantage in the sale process is that other bidders must incur substantial incremental G & A costs to manage these customer books, while our experience with Sunoco has shown that our incremental cost for even large blocks of acquired customers is relatively small. The result is solid returns for our Unitholders from cash invested in customer book acquisitions.

While there can be no certainty that further acquisitions will be consummated, we expect a number of opportunities to surface, particularly as we move into U.S. markets. As with the rest of our business, we are disciplined in our analysis of acquisitions and are very cognizant of not buying any business which materially increases the overall risk profile of the Company. In particular, any customers acquired must be properly matched, consistent with our own philosophy. We will not bear any commodity risk.

OUR EXPERIENCE WITH SUNOCO HAS SHOWN THAT OUR INCREMENTAL COST FOR EVEN LARGE BLOCKS OF ACQUIRED CUSTOMERS IS RELATIVELY SMALL.

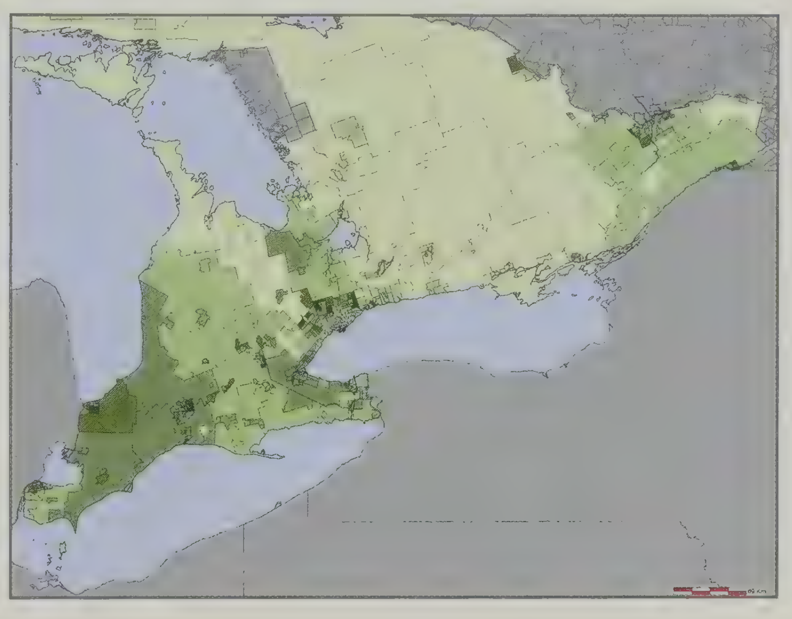


Natural Gas Market Penetration – Northern Ontario



HISTORICALLY ENERGY SAVINGS MARKETS ITS FIXED-PRICE CONTRACTS WHEREVER NATURAL GAS SERVICE FLOWS.

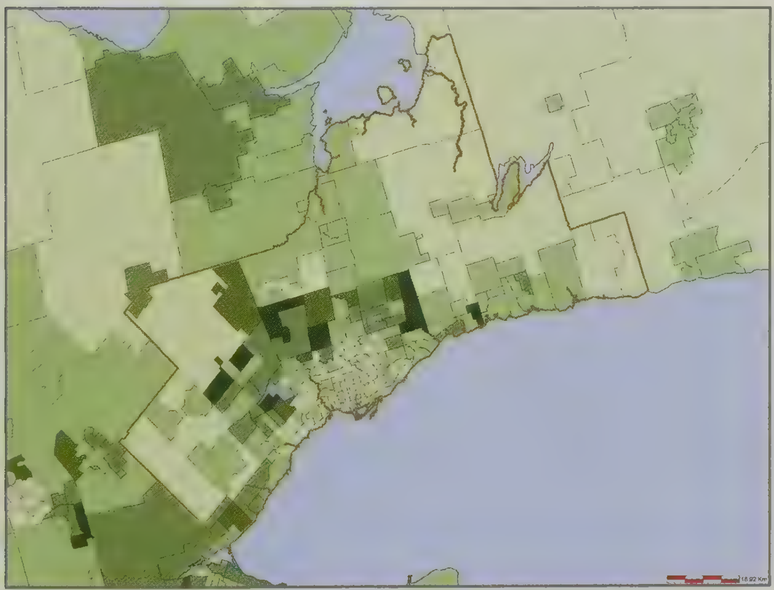
Natural Gas Market Penetration – Southern Ontario



HOUSEHOLDS WITH ENERGY SAVINGS

- Less than 5%
- 5-10%
- 10-15%
- 15-20%
- Greater than 20%
- No data

Natural Gas Market Penetration – Metro Toronto.



OUR LATE START IN THE MARKET (1997) HAS LIMITED OUR PENETRATION RATES INSIDE TORONTO. PENETRATION IS HIGHEST IN THE OUTSKIRTS OF THE GREATER TORONTO AREA AND OTHER CITIES.

"ENERGY SAVINGS IS AN INCOME TRUST SECTOR LEADER IN GOVERNANCE ISSUES."

The Energy Savings Income Fund (the "Fund") is an open-ended, limited-purpose trust established by the Declaration of Trust and governed by the laws of the Province of Ontario. The Fund is administered by its administrator, OESC, which is governed by its board of directors. The head office of the Fund is located at 130 King Street West, Suite 2830, Toronto, Ontario M5X 1E1.

The Fund holds 100% of the common shares of Ontario Energy Savings Corp. Through OESC, the Fund markets natural gas to residential customers and small to mid-sized commercial and industrial businesses in Ontario and Manitoba, and electricity to mid-sized commercial and industrial businesses in Ontario. The Fund meets the energy requirements of its customers by purchasing matching volumes for gas and electricity. Customers essentially eliminate their exposure to price escalations, and the Fund locks in its margins by entering into matching long-term, fixed-price contracts. Energy Savings is Canada's largest publically traded energy retailer. It trades on the Toronto Stock Exchange under the symbol SIF.UN.

FUND PROFILE

ENERGY SAVINGS WAS ONE OF THE FIRST PUBLICLY TRADED ENTITIES IN CANADA TO EXPENSE ALL OPTION COSTS.

STRUCTURE

The Fund was established to hold securities of its subsidiaries. The Fund holds 100% of the common shares of Ontario Energy Savings Corp ("OESC") and OESC Exchange Inc. ("Exchangeco"). The Fund makes cash distributions to Unitholders of amounts received by way of dividends received, redemption of common shares, interest income earned from the OESC and Exchangeco Notes, other income of the Fund, and any cash redemptions of units.

The Fund also holds indirectly through OESC, 100% of the voting shares of Energy Savings Manitoba Corp., United States Energy Savings Corp., and Energy Savings Commodities Inc. Energy Savings Manitoba Corp. became active on January 14, 2003.

DEVELOPMENT OF THE FUND

The Fund completed its initial public offering (adjusted for a 2-for-1 split effective July 31, 2002) of 22,000,000 units on April 30, 2001 at a price of $5.00 per unit pursuant to the prospectus, and completed a subsequent closing of a further 2,200,000 units pursuant to the exercise of the Over-Allotment Option on May 16, 2001.

On April 30, 2002, for a consideration of $66 million, OESC purchased Sunoco Inc.'s Natural Gas Marketing Business which, after anticipated loss on renewal, equated to approximately 140,000 RCEs (Residential Customer Equivalents). The acquisition was financed by the issuance by the Fund of 6,000,000 (post-split) Subscription Receipts for gross proceeds of $75,000,000, pursuant to the Short Form Prospectus on April 30, 2002, which Subscription Receipts were subsequently exchanged for units on May 8, 2002.

CORPORATE GOVERNANCE

The year 2003 brought many developments in terms of corporate governance and accountability both in Canada and the United States. Heightened expectations on the part of investors, and the public in general, encouraged governments and regulators in both countries to propose and adopt new rules in the sector, and revise and amend ones already in effect.

In Canada, the most important development in the last year was the introduction in Ontario of new legislation marking major changes to the governance and disclosure regime, which should have an impact throughout the country. Meanwhile, the TSX proposed to its listed companies new requirements and guidelines pertaining to corporate governance. Both of these new regimes are expected to come into effect before the end of the upcoming year.

The Fund and its operating subsidiary Ontario Energy Savings Corp. ("OESC") are in substantial compliance with the corporate guidelines issued by the TSX and with other Canadian requirements. As announced during the first quarter of this past fiscal year, the Energy Savings was one of the first publicly traded entities in Canada to expense all option costs. Combined with a very conservative approach to accounting treatments and internalization of management, this provides the board with comfort that the Fund is an Income Trust sector leader in governance issues.

In the United States the Sarbanes-Oxley Act of 2003 introduced a number of corporation governance requirements that affect participants in U.S. markets. While not subject to the Sarbanes-Oxley legislation, the Compensation, Corporate Governance and Human Resources Committee (the "Committee") of the Board of OESC will consider whether any of its provisions would improve the corporate governance practices of the Fund. At the same time, the Committee will continue to follow the progress of the new corporate governance rules recently introduced in Canada, with a view to recommending to the Board any changes to the Fund's corporate governance practices that may be necessary to comply with the new rules as they become effective.

The Fund is currently reviewing its corporate governance practices in the context of the proposed new TSX rules, with respect to which it is in substantial compliance. The Fund also plans to make changes to the mandates of its Board committees and to develop a Code of Business of Conduct. When completed, these mandates and the Code will be published on the Fund's website.

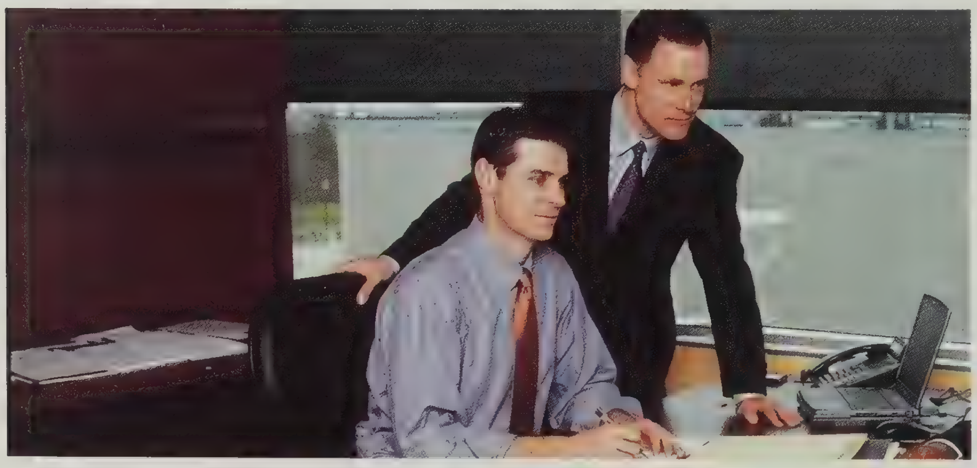
The Fund's record of compliance with the current TSX Guidelines on Corporate Governance is detailed in its proxy information circular for its June 27, 2003 meeting of Unitholders. Among other compliance issues, a majority of the directors of OESC and 100% of the members of both board committees are independent and unrelated directors.

DISTRIBUTION HISTORY

The Fund has made monthly distributions to its Unitholders as per the schedule below. The distributions for the full year reflect the rate post split. The annual rate of distribution was increased six times during the fiscal year as follows:

- **from $0.815 to $0.925 in April**
- **from $0.925 to $1.00 in June**
- **from $1.00 to $1.05 in July**
- **from $1.05 to $1.15 in September**
- **from $1.15 to $1.25 in November**
- **from $1.25 to $1.30 in December**

ON APRIL 30, 2002, OESC PURCHASED SUNOCO INC.'S NATURAL GAS MARKETING BUSINESS.



THE ANNUAL RATE OF DISTRIBUTION WAS INCREASED SIX TIMES DURING THE FISCAL YEAR GOING FROM $0.815 PER UNIT TO $1.30.

Cash Distributions received in fiscal 2003 were as follows:

				Tax Allocation		
Record Date	**Distribution Date**	**Period Covered**	**Payment per unit**	**Interest**	**Dividends**	**Return of Capital**
April 15, 2002	April 30, 2002	March-02	0.06790	0.05020	0.01120	0.00650
May 15, 2002	May 31, 2002	April-02	0.07709	0.04479	0.02572	0.00658
June 15, 2002	June 30, 2002	May-02	0.07709	0.06824	0.00113	0.00772
July 15, 2002	July 31, 2002	June-02	0.08350	0.06701	0.00320	0.01329
August 15, 2002	August 31, 2002	July-02	0.08750	0.07133	0.00448	0.01169
September 15, 2002	September 30, 2002	August-02	0.08750	0.07129	0.01364	0.00257
October 15, 2002	October 31, 2002	September-02	0.09580	0.06793	0.02148	0.00639
November 15, 2002	November 30, 2002	October-02	0.09580	0.07292	0.02010	0.00278
December 15, 2002	December 31, 2002	November-02	0.10400	0.07052	0.02948	0.00400
January 15, 2003	January 31, 2003	December-02	0.10800	0.07129	0.03407	0.00264
February 15, 2003	February 28, 2003	January-03	0.10800	0.07604*	0.02824*	0.00372*
March 15, 2003	March 31, 2003	February-03	0.10800	0.06856*	0.03403*	0.00541*
		Total Paid	$1.10			

**Amounts are estimates*

MESSAGE
FROM THE CFO

MY FELLOW UNITHOLDERS,

From a financial point of view, it is our mandate to provide a clear and accurate picture of our business to the investing public. We strive to make our reporting and, in particular, our Management Discussion and Analysis detailed and informative.

Income Funds are, by their nature, focused on cash generation. We attempt to give as transparent an accounting as possible of the cash flows of Energy Savings and the uses of the cash generated, whether it be for continued customer base expansion or distributions to Unitholders.

Our accounting policies are conservative, consistent with the way we run our business. We operate with a simple business model. We attempt to accomplish each aspect of the plan as efficiently and effectively as possible. It is our hope that our financial reporting adequately conveys our performance in meeting these objectives on a year-to-year basis.

James H. McKelvie, C.A.
SENIOR EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER

MANAGEMENT'S DISCUSSION & ANALYSIS OF

FINANCIAL CONDITION AND RESULTS FROM OPERATIONS

OVERVIEW

This analysis pertains to the operating results of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the year ended March 31, 2003. The Fund acquired Ontario Energy Savings Corp. ("OESC" or the "Company") on April 30, 2001. Therefore, the comparative statements for the year ended March 31, 2002 reflects operating results for only eleven months.

Effective April 1, 2002, OESC purchased Sunoco's approximately 120,000 natural gas customer contracts equating to approximately 280,000 RCEs (Residential Customer Equivalents). A total of 6.0 million units of the Fund (post-split) were issued to finance this acquisition and, accordingly, all per unit calculations for the periods reflect these incremental units.

On July 18, 2002, the Unitholders approved a subdivision of the Fund's units on a two for one basis. Trading of the units on a split basis commenced July 29, 2002. All information relating to the units and per unit data including comparative figures have been adjusted retroactively to reflect the impact of the unit split in this discussion.

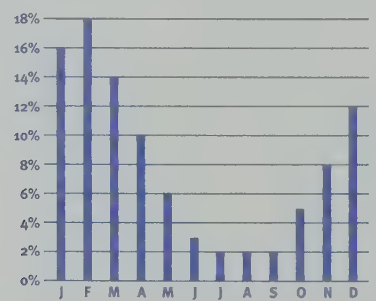
FINANCIAL HIGHLIGHTS

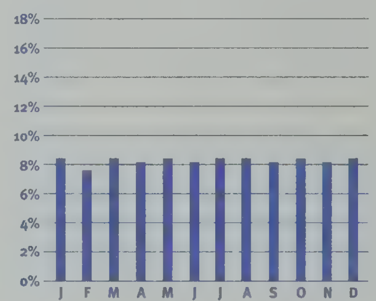
FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except where indicated and per unit amount)*

	2003		2002		Change
	$	*Per unit*	*$*	*Per unit*	
Amount available for distribution					
· Before selling expense	**99,670**	**1.96**	47,728	1.07	**109%**
· After selling expense	**76,623**	**1.51**	31,232	0.70	**145%**
Distributions	**55,214**	**1.08**	26,830	0.60	**106%**
General and administrative	**12,633**	**0.25**	6,050	0.14	**109%**
Payout Ratio					
· Before selling expense	**55%**		56%		
· After selling expense	**72%**		86%		
Selling Price at end of Year					
· Gas	**31.5¢/m³**		26.9¢/m³		
· Electricity – commercial	**7.2¢/kwh**		N/A		

The Company delivers gas to the local distribution companies (Enbridge Consumers Gas and Union Gas, collectively the "LDCs") for its customers throughout the year. The volume delivered for a customer remains consistent throughout the year. The Company receives revenue from the LDCs as the gas is delivered. The Company's accounting policy accounts for sales when the customer actually consumes the gas. Therefore, as is illustrated in the tables below, during the winter months gas is consumed at a rate which is greater than delivery and in the summer months gas is delivered in excess of gas consumed. Gas accounts are balanced at least once a year.

Electricity accounts are balanced daily. Any supply greater than consumption is immediately sold off into the open market at the spot price.





Management believes the best basis for analyzing the Fund's operating results is to focus on amounts actually received (effectively expected annual consumption per customer divided by 12) which is relatively stable month to month, rather than sales which reflect seasonal variance in the consumption of gas. The following analysis eliminates this seasonal variance and illustrates the gas actually delivered to LDCs, the revenue received and associated margins.

No such adjustment is required for electricity since electricity is consumed at the same time as delivery.

RECONCILIATION OF REVENUE RECEIVED AND ASSOCIATED MARGIN

FOR THE YEAR ENDED MARCH 31 2003 – *(thousands of dollars)*

	Sales	Cost of Sales	Gross Margin
Per Financial Statements			
Gas	$ 484,795	$ 374,959	$ 109,836
Electricity	53,873	44,625	9,248
Total	$ 538,668	$ 419,584	$ 119,084
Opening unbilled revenues/accrued gas accounts payable	414	197	217
Opening gas in storage	–	(2,128)	2,128
Opening Sunoco inventory	(1,120)	(1,066)	(54)
Closing unbilled revenues/accrued gas accounts payable	(47,002)	(34,707)	(12,295)
	(47,708)	(37,704)	(10,004)
Other adjustments *(Note 1)*	3,268	(337)	3,605
Gross margin before balancing	494,228	381,543	112,685
Balancing allowance *(Note 2)*	–	50	(50)
Gross margin available for distribution	$ 494,228	$ 381,593	$ 112,635

RECONCILIATION OF REVENUE RECEIVED AND ASSOCIATED MARGIN

FOR THE YEAR ENDED MARCH 31, 2002 – *(thousands of dollars)*

	Sales	Cost of Sales	Gross Margin
Per Financial Statements			
Gas	$ 183,900	$ 128,434	$ 55,466
Electricity	–	–	–
Total	$ 183,900	$ 128,434	$ 55,466
Opening unbilled revenues/accrued gas accounts payable	18,363	14,138	4,225
Gas in storage	–	2,128	(2,128)
Closing unbilled revenues/accrued gas accounts payable	(414)	(197)	(217)
	17,949	16,069	1,880
Other adjustments *(Note 1)*	3,607	(318)	3,925
Gross margin before balancing	205,456	144,185	61,271
Balancing allowance *(Note 2)*	–	2,450	(2,450)
Gross margin available for distribution	$ 205,456	$ 146,635	$ 58,821

AMOUNT AVAILABLE FOR DISTRIBUTION

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except per unit amount)*

	2003	2003 Per unit (Note 3)	2002	2002 Per unit (Note 3)
Gross margin available for distribution	$ 112,635		$ 58,821	
Less:				
General and administrative	12,633		6,050	
Capital tax	820		670	
Other income	(488)		(245)	
Income taxes *(Note 4)*	–		4,618	
	12,965		11,093	
Available for distribution before selling expenses	99,670	$ 1.96	47,728	$ 1.07
Selling expenses	23,047		16,496	
Amount available for distribution	$ 76,623	$ 1.51	$ 31,232	$ 0.70

RECONCILIATION TO STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except per unit amount)*

	2003	2002
Cash inflow from operations	$ 63,897	$ 23,241
Management incentive program	11,123	7,954
Income taxes *(Note 4)*	–	(4,618)
Income taxes actual *(Note 4)*	1,230	3,180
	76,250	29,757
Allowance for balancing *(Note 2)*	(50)	(2,450)
Other *(Note 1)*	423	3,925
	373	1,475
Amount available for distribution	$ 76,623	$ 31,232

DISTRIBUTIONS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except per unit amount)*

	2003	2003 Per unit	2002	2002 Per unit
Management incentive program	$ 11,123		$ 7,954	
Unitholder distribution	43,195		17,693	
	54,318		25,647	
Non-cash distributions – Class B preference shares	896		1,183	
Total distributions paid	$ 55,214	$ 1.08	$ 26,830	$ 0.60

Note 1
Included in other adjustments is $3.3 million for the year ended March 31, 2002 relating to gas payable to LDCs resulting from over-delivered gas during the year which was subsequently sold to third parties.

Note 2
The Fund has reduced amounts otherwise available for distribution by an additional allowance for balancing costs of $0.05 million bringing the total allowance to $2.5 million for the year ended March 31, 2003, (2002 - $2.45 million). The allowance was determined by a forecast of the projected gas position of the Company when balancing will occur. This allowance would not be required for financial statement purposes since for accounting purposes revenue is recognised when gas is consumed by the customer.

Note 3
Diluted average number of units amounted to 50.9 million for the year ended March 31, 2003. For comparative purposes the diluted number of units was 44.6 million for the year ended March 31, 2002.

Note 4
Income taxes calculated on the basis of amounts received is nil for the year ended March 31, 2003 due to the deduction of a portion of the purchase price of Sunoco Inc.'s Natural Gas Marketing Business. The deduction was not available in prior year as the business was purchased during the current fiscal year.

Income taxes actual relates to large corporation tax payable by the Company in the current fiscal year. Prior years' balance includes both large corporation and corporate taxes.

SUMMARY OF QUARTERLY RESULTS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except where indicated and per unit amount)*

2003	Q1	Q2	Q3	Q4
Sales per financial statements	$ 124,037	$ 58,817	$ 130,689	$ 225,125
Net income (loss)	936	(6,273)	1,460	21,740
Net income (loss) per unit – Basic	$ 0.07	$ (0.19)	$ 0.02	$ 0.56
Net income (loss) per unit – Diluted	0.07	(0.19)	0.02	0.45
Amount available before distribution				
· Before selling expense	$ 21,132	$ 23,277	$ 24,980	$ 30,281
· After selling expense	18,038	16,274	16,436	25,875
Payout ratio				
· Before selling expense	55%	57%	61%	53%
· After selling expense	65%	82%	93%	62%
Gross margin per customer – Gas	$ 173	$ 188	$ 174	$ 178
Gross margin per customer – Electricity	$ N/A	$ 111	$ 118	$ 102

2002	Q1	Q2	Q3	Q4
Sales per financial statements	$ 21,627	$ 23,352	$ 44,536	$ 94,383
Net income (loss)	(1,349)	(4,519)	4,087	3,904
Net income (loss) per unit - Basic	$ (0.13)	$ (0.18)	$ 0.13	$ 0.13
Net income (loss) per unit - Diluted	(0.13)	(0.18)	0.13	0.12
Amount available before distribution				
· Before selling expense	$ 9,737	$ 13,293	$ 12,405	$ 13,914
· After selling expense	6,706	9,255	8,727	8,166
Payout ratio				
· Before selling expense	47%	53%	63%	59%
· After selling expense	68%	76%	90%	100%
Gross margin per customer – Gas	$ 215	$ 220	$ 225	$ 226

SALES, GROSS MARGINS AND MARKETING RESULTS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars)*

	Per Financial Statements			Seasonally Adjusted		
	Sales	Cost of Sales	Gross Margin	Sales	Cost of Sales	Gross Margin
· 2003	$ 538,668	$ 419,584	$ 119,084	$ 494,228	$ 381,593	$ 112,635
· 2002	183,900	128,434	55,466	205,456	146,635	58,821
Increase	$ 354,768	$ 291,150	$ 63,618	$ 288,772	$ 234,958	$ 53,814

CUSTOMER AGGREGATION

NET RCEs ADDED FOR THE YEARS ENDED MARCH 31 – *(exclusive of customers acquired in the Sunoco acquisition)*

	2003	2002
Opening		
· Gas	**320,000**	217,000
· Electricity	**N/A**	N/A
	320,000	217,000
Closing		
· Gas	**396,000**	320,000
· Electricity	**154,000**	N/A
	550,000	320,000
Additions (net of attrition)		
· Gas	**76,000**	103,000
· Electricity	**154,000**	N/A
	230,000	103,000
Year-over-year increase	**72%**	47%

RENEWAL OF SUNOCO CUSTOMERS

FOR THE YEAR ENDED MARCH 31, 2003

	RCEs	Margin
Original acquisition	280,000	$91/yr
RCEs up for renewal during the year	224,000	
Renewal % (50% projected at time of acquisition)	51%	
Customers renewed during the year	115,000	Average renewal margin $170/yr
RCEs at the end of the year	171,000	

As noted above, sales have increased $354.8 million (193%) on a financial statement basis and $288.8 million (141%) on a seasonally adjusted basis for the year ended March 31, 2003 as compared to prior year. Margins have increased $63.6 million (115%) and $53.8 million seasonally adjusted (91%) for the same comparative period. In viewing the growth of the business over fiscal 2002, it is important to note that the comparative figures in 2002 reflect only eleven months of operating results for gas and no operating results for electricity. The Company did not start marketing electricity until fiscal 2003.

The growth in sales is directly attributable to three factors: 1) the year over year net addition of 76,000 new gas customers through the Fund's marketing efforts; 2) the acquisition of 280,000 RCEs (now 171,000 after renewals) through the Sunoco purchase; and 3) revenue from the 154,000 RCE net additions in the Ontario electricity market. The year over year decline in annual margin per customer from $225 per customer to $178 per customer is attributed to the addition of the Sunoco customers which had average annual margins of $91 versus much higher margins for Energy Savings. Barring further acquisitions of gas customers, with new contract margins targeted at $170 per year, it is expected that, over time, gas margin per customer will stabilise at that level.

Electricity customer margins for the year ended March 31, 2003 were $108 per year. This compared to a previously disclosed management target of $100 per customer. There were no electricity customers in fiscal 2002.

MARKETING

Total net customers aggregated for the year was 230,000. This compared to 103,000 for the year ended March 31, 2002, an increase of 123%. The increase in net customers aggregated was largely due to the very successful electricity marketing campaign.

The one-time costs of signing these new customers, selling expenses, were $23.0 million for the year ended March 31, 2003, up from $16.5 million in prior year. The overall increase was due to increased level of successful aggregation.

Energy Savings Gas Marketing

At the end of the year, Energy Savings had 396,000 RCEs in Ontario excluding the acquired Sunoco customers discussed below. This compared to 217,000 RCEs at the time of the Fund's IPO (up 82%) and 320,000 at the end of fiscal 2002 (up 24%). This net growth was achieved through successful new customer marketing efforts and takes into account attrition through customers moving (approximately 7% per year) and failure to renew at contract end (historically less than 10%).

Electricity Customers

Net additions were 154,000 for the year. On March 21, 2003, the Government of Ontario announced a Business Protection Plan for large electricity customers. Under the Business Protection Plan, non-designated consumers using greater than 250,000 kilowatt hours ("Large Volume Users") per year will not be eligible for the 4.3¢/kwh price freeze implemented by the Government of Ontario on November 11, 2002. Large Volume Users can range anywhere from convenience stores, franchise restaurants to large manufacturers.

The Business Protection Plan has been put into effect through Ontario Regulation 126/03 made under the Ontario Energy Board Act, 1998. As a direct result of the provision in the announcement the Company resumed marketing electricity to Ontario Large Volume Users on March 31, 2003.

Renewal of Sunoco Gas Customers

Energy Savings acquired approximately 280,000 natural gas RCEs and associated supply from Sunoco effective April 1, 2002 for a total price of $66.0 million. These customers were contracted to generate an average annual margin of $91 per RCE (based on 110 GJs). The Sunoco customers included a number of high volume, small industrial businesses who generated very low margins blended with residential customers generating over $100 per year.

To date, approximately 224,000 or 80% of the Sunoco customers have been up for renewal. Of these, 115,000 or 51% have renewed. This renewal percentage was consistent with our initial estimates. Margin on renewed contracts is $170 per customer, higher than the $150 estimated at the time of acquisition.

GENERAL AND ADMINISTRATION

General and administrative costs were $12.6 million for the year. These costs were up 109% from prior year. The increase is due to the establishment of the necessary infrastructure for the commencement and ongoing management of the Ontario electricity program and a general growth in expenses due to the Company's more than 100% increase in customers from the prior year.

UNIT BASED COMPENSATION

The year saw the impact of the Fund's decision to expense all unit option costs. The charge for the year of $3.3 million is a non-cash expense. Prior periods have been restated to reflect the impact of the policy when the options were issued and/or vested.

SELLING PRICE

Natural gas selling price at the end of the year was 31.5¢/m^3. While there have been substantial increases in spot gas prices over this period, the five year gas price (on which our offering is based) has been relatively stable. The Fund's electricity price was 7.2¢/kwh for large volume commercial customers at the end of the year with our customers retaining the right to the Ontario Government's mandated rebate.

GAS SUPPLY

The winter in fiscal 2003 has been considerably colder than the mean winter. This resulted in our customers consuming more gas than was supplied to the LDCs for their use. This gas will be supplied to the LDCs over the next two quarters. Management has provided in the seasonally adjusted number an allowance of $2.5 million for possible balancing losses, an increase of $0.05 million from prior year. Management believes that the Fund remains effectively matched for both its gas and electricity contractual obligations at the end of the year.

LIQUIDITY AND CAPITAL RESOURCES

During the year the company established an operating line of credit in the amount of $10.0 million. The operating line will primarily be utilised to provide credit support to various suppliers. As at the year end, the company had provided a $1.6 million letter of credit to a supplier.

As at March 31, 2003 cash balances were $34.7 million up from $19.2 million at the end of the previous year. These cash balances will be used to fund the cost of any small acquisitions as well as natural gas and electricity marketing in Ontario, Manitoba and in other markets to the extent it exceeds current cashflow after distributions. Longer term, cash above the level necessary for marketing and working capital will be used to fund increased distribution levels.

Cash balances equal approximately six months of distributions at the current rate.

DISTRIBUTIONS

On an accounting basis, the Fund paid distributions of $1.08 per unit for the year versus $0.60 in prior year. Payments are made on the last day of each month following the declaration of distribution. Unitholders who held their units for entire year received cash distributions of $1.10 per unit paid in April 2002 through March 2003. The amount available for distribution after selling expenses, providing for income taxes and balancing provision, was $1.51 per unit for the year compared to $0.70 in prior year. Before selling expense to aggregate new customers, the amount available for distribution was $1.96 per unit compared to $1.07 in prior year.

At year end, the annual run rate for distributions per unit was $1.30 per unit, subsequently increased to $1.35 effective the distribution paid in April and again to $1.40 effective the distribution paid in May. The distribution rate was $0.815 at the beginning of the year. The Fund has increased its rate of distribution twelve times since its IPO, April 2001.

BALANCE SHEET COMPARED TO MARCH 31, 2002

Cash has increased from $19.2 million to $34.7 million due to the cash generated from operations and the net cash proceeds over and above the Sunoco acquisition cost from the April, 2002 public offering of units. Gas contracts increased due to acquisition of the Sunoco customers but were reduced by $57.3 million of non-cash amortization during the year. Goodwill increased over the period due to the Sunoco acquisition. The carrying value of goodwill is tested annually for impairment. No writedown was required for fiscal 2003.

RISKS AND UNCERTAINTIES

The Company operates in the deregulated Gas market in Ontario and Manitoba, as well as the deregulated Electricity market in Ontario. Any significant change to the legislative environment may affect the Company's ability to grow or maintain its market position. On June 28, 2002, the Government of Ontario passed Bill 58, the Reliable Energy and Consumer Protection Act, 2002 ("Bill 58") which, among other things, added certain consumer protections with respect to the marketing of long term electricity and natural gas contracts in the Province. Bill 58 came into effect July 1, 2002. The management of Energy Savings believes that its pre-existing internal consumer protection policies and procedures are more stringent than those contemplated under Bill 58. Accordingly, the passage of the Bill did not meaningfully alter the Company's business model or its operating procedures.

To date the regulations under Bill 58 have added some costs to the signing of new customers and the renewal of existing customers. These costs are being passed along to the customer and have not resulted in lower new customer aggregation rates. Customer renewals will not reduce targeted margin per customer. With respect to customer renewals, it is too early to project the impact on renewal rates as the number of non-Sunoco renewals has been very small. Management believes that the vast majority of customers can be renewed at costs in line with the Company's estimates. For internal planning purposes, the Company anticipated that an average $40 cost per five year renewal would be required to maintain near-historical renewal rates. To date, this cost estimate has been accurate.

OUTLOOK

These annual results reflect the continuation of the marketing success the Company has seen throughout its history. These marketing efforts continue to grow the base of long-term, matched customer contracts, which generates the predictable cash flow paid out to the Unitholders. As the customer base grows, the Fund's policy is to continue to grow its level of distributions.

On March 31, 2003, Energy Savings announced that it will restart marketing of Electricity to Ontario businesses following the Ontario Government's announcement that a portion of Ontario's electricity market ("Large Volume Users") will remain open for competition. Of the approximately 154,000 electricity customer equivalents currently under contract to Energy Savings, about 60% fall within the Large Volume User category. The Fund estimates that on an RCE basis there are approximately 2.5 million customers still available.

The Fund's expectation is that overall customer growth will continue through its marketing efforts. The 154,000 net additions achieved for electricity in fiscal 2003 exceeded the Company's internal target of 120,000 RCEs for the year (despite the market being effectively closed from mid November 2002 through the end of March 2003). Management has set an internal target of 80,000 gross RCEs for each of Ontario natural gas and electricity in fiscal 2004. A target of 12,000 gross RCEs has also been set for the Manitoba natural gas market.

After allowing for expected attrition and expected residual Sunoco customers, realization of these targets would result in a total customer base in excess of 800,000 at the end of fiscal 2004 before the impact of any acquisitions or new geographic markets beyond Manitoba. This projected customer growth rate is a target and, as always, the actual rate of customer growth going forward will be a function of the continued receptivity of customers in what is already a competitive commodity market. Based on current product offerings, margins are expected to be $170 per year for new gas customers and $100 per year for new electricity customers.

Other drivers for the Fund's growth will be the expansion into new geographic markets and opportunistic acquisitions. The Fund has carefully examined a number of potential markets and is in the process of preparing license applications for three U.S. States.

On February 20, 2003, the Fund announced the eleventh increase in its distribution level to $1.35 effective the distribution paid in April. On April 30, 2003, the Fund announced the twelfth increase in its level of distributions to an annual $1.40 per unit effective the distribution paid in May. The Fund's policy on distributions is to have them track increases in distributable cash after making conservative allowances for potential marketing costs and appropriate levels of cash and working capital. Management anticipates that the payout ratio for fiscal 2004 will exceed both the 55% of pre-marketing cash and 72% of post-marketing cash realised in fiscal 2003.

AUDITOR'S REPORT

To the Unitholders of Energy Savings Income Fund

We have audited the consolidated balance sheets of Energy Savings Income Fund as at March 31, 2003 and 2002 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
May 9, 2003 – Toronto Canada

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Energy Savings Income Fund and all the information in this Annual Report are the responsibility of management and are approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a consistent basis with that in the consolidated financial statements.

Energy Savings Income Fund maintains systems of internal accounting and administrative controls. These systems are designated to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of non-management Directors. The Audit Committee meets periodically with Management and the external auditors, to discuss auditing, internal controls, accounting policy and financial reporting matters. The Committee reviews the consolidated financial statements with both management and the external auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The consolidated financial statements have been audited by Deloitte and Touche LLP, the external auditors, in accordance with Canadian general accepted auditing standards on behalf of the Unitholders. The external auditors have full and free access to the Audit Committee.

Toronto, Ontario
May 9, 2003

Rebecca MacDonald
CHAIR & CHIEF EXECUTIVE OFFICER

James H. McKelvie, C.A.
SENIOR EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

CONSOLIDATED
BALANCE SHEETS

AS AT MARCH 31 – *(thousands of dollars)*

	2003	2002 *Restated Note 4*
ASSETS		
CURRENT		
Cash	$ 34,722	$ 19,190
Accounts receivable	19,804	7,166
Gas in storage	–	2,128
Unbilled revenues	47,002	414
Prepaid expenses	1,048	69
	102,576	28,967
GAS CONTRACTS *(less accumulated amortization – $94,540; 2002 -$37,225)*	140,228	133,924
GOODWILL	94,576	92,139
CAPITAL ASSETS *(Note 8)*	3,566	910
	$ 340,946	$ 255,940
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 13,061	$ 12,723
Management incentive program payable	1,395	1,261
Unit distribution payable	4,840	1,959
Corporate taxes payable	575	3,180
Accrued gas accounts payable	34,707	197
	54,578	19,320
FUTURE INCOME TAXES *(Note 9)*	40,706	45,763
	95,284	65,083
EQUITY		
Preference shares of OESC *(Note 12)*	$ 33,699	$ 68,422
Units *(Note 13)*	208,078	119,779
Contributed surplus	3,885	2,656
	245,662	190,857
	$ 340,946	$ 255,940

On behalf of Energy Savings Income Fund by Ontario Energy Savings Corp., as administrator.

Rebecca MacDonald
CHAIR & CHIEF EXECUTIVE OFFICER

James H. McKelvie, C.A.
SENIOR EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars)*

	2003	2002 *Restated Note 4*
UNITHOLDERS' EQUITY, BEGINNING OF YEAR	$ 119,779	$ –
Issue of trust units	71,123	126,312
Trust units cancelled	–	(1,539)
Trust units exchanged	35,843	10,641
Options exercised	7,785	–
NET INCOME	17,863	2,058
DISTRIBUTIONS	(44,091)	(18,876)
CLASS B PREFERENCE DISTRIBUTIONS PAID	(1,120)	–
CLASS B PREFERENCE DISTRIBUTIONS EXCHANGEABLE INTO UNITS	896	1,183
UNITHOLDERS' EQUITY, END OF YEAR	$ 208,078	$ 119,779

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except per unit amount)*

	2003	2002 *Restated Note 4*
SALES	$ 538,668	$ 183,900
COST OF SALES	419,584	128,434
GROSS MARGIN	119,084	55,466
EXPENSES		
General and administrative expenses	12,633	6,050
Capital tax	820	670
Selling expenses	23,047	16,496
Unit based compensation	3,270	2,045
Management incentive program	11,123	7,954
Amortization	57,825	37,358
	108,718	70,573
INCOME (LOSS) BEFORE OTHER INCOME	10,366	(15,107)
OTHER INCOME	488	245
INCOME (LOSS) BEFORE INCOME TAX	10,854	(14,862)
RECOVERY OF INCOME TAX *(Note 9)*	(7,009)	(16,920)
NET INCOME	$ 17,863	$ 2,058
Net income per unit *(Note 16)*		
Basic	$ 0.47	$ 0.03
Diluted	$ 0.44	$ 0.03

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31 – *(thousands of dollars except per unit amount)*

	2003	2002 *Restated Note 4*
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income	$ 17,863	$ 2,058
Items not affecting cash		
Amortization	57,825	37,358
Unit based compensation	3,270	2,045
Future income taxes	(5,057)	(20,100)
	56,038	19,303
Adjustments required to reflect net cash receipts from gas sales *(Note 19)*	(10,004)	1,880
Cash inflow from operations	63,897	23,241
Changes in non-cash working capital *(Note 20)*	(15,750)	(548)
	48,147	22,693
FINANCING		
Issue of trust units	71,123	112,176
Units purchased for cancellation	–	(10,229)
Exercise of unit options	5,744	–
Distributions paid to Unitholders	(40,316)	(15,734)
	36,551	86,213
INVESTING		
Purchase of capital assets	(3,166)	(847)
Acquisition of OESC	–	(88,869)
Acquisition of Sunoco Inc.'s Natural Gas Marketing Business	(66,000)	–
	(69,166)	(89,716)
NET CASH INFLOW	15,532	19,190
CASH, BEGINNING OF YEAR	19,190	–
CASH, END OF YEAR	$ 34,722	$ 19,190
Supplemental Information		
Interest paid	$ 44	$ 20
Income taxes paid	$ 654	$ 40
Cash Flow per unit *(Note 16)*		
Basic	$ 1.76	$ 0.86
Diluted	$ 1.39	$ 0.63

1. ORGANIZATION

Energy Savings Income Fund ("Fund")

The Fund is an open-ended, limited-purpose trust established under the laws of the Province of Ontario by an amended and restated declaration of trust dated April 18, 2001. The Fund holds common shares and notes of Ontario Energy Savings Corp., ("OESC") and OESC Exchange Inc., ("Exchangeco"). The Fund makes cash distributions to the Unitholders based on interest income earned from the notes and dividends received on the common shares of OESC and Exchangeco, after applicable expenses and any cash redemptions of units. The Fund has entered into an agreement with OESC, pursuant to which OESC acts as administrator of the Fund.

2. OPERATIONS

Ontario Energy Savings Corp. ("OESC")

OESC's business, which is conducted in Ontario and Manitoba, involves the sale of natural gas to residential, small to mid-size commercial and small industrial customers under long-term, irrevocable fixed price contracts. OESC also supplies electricity to residential, small to mid-size commercial and small industrial Ontario customers under contracts secured prior to the November 11, 2002 price freeze. OESC is actively marketing electricity to certain large volume (over 250,000 kwh annual consumption) commercial and industrial users who do not fall under the Ontario Government's price cap. By fixing the price of natural gas or electricity under its fixed price contracts for a period of five years, customers eliminate their exposure to changes in the price of these essential commodities. It is OESC's policy to match the estimated requirements of its customers by purchasing offsetting volumes of natural gas and electricity from suppliers at fixed prices for the term of its related customer contracts. OESC derives its gross margin from the difference between the fixed price at which it is able to sell the commodities to its customers and the fixed price at which it purchases the matching volumes from its suppliers.

OESC Exchange Inc. ("Exchangeco")

Exchangeco's purpose is to facilitate the transfer of units to the holders of Class A and Class B preference shares of OESC upon the exercise of the shareholder exchange rights to which the preference shareholders are entitled under the terms of the OESC shareholders' agreement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the accounts of Energy Savings Income Fund and its wholly-owned subsidiaries, Ontario Energy Savings Corp. and OESC Exchange Inc.

The Fund acquired OESC on April 30, 2001, therefore the comparative statements for the year ended March 31, 2002 reflects operating results for only eleven months.

(b) Cash and cash equivalents

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

(c) Unbilled revenues/accrued gas accounts payable

Unbilled revenues result when customers consume more gas than has been delivered by OESC to local distribution companies; they are stated at estimated realisable value.

Accrued gas accounts payable represents the obligation to the local distribution companies with respect to gas consumed by customers in excess of that delivered to the local distribution companies.

(d) Gas delivered in excess of consumption/deferred revenues

Gas delivered to local distribution companies in excess of consumption by customers is stated at the lower of cost and net realisable value.

Deferred revenues result from collections from customers in advance of the amount due for gas actually consumed by them.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Gas in storage

Gas in storage is stated at the lower of cost and net realisable value.

(f) Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets as follows:

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Office equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Electricity billing and settlement system	Straight line	5 years
Leasehold improvements	Straight line	Term of lease

(g) Goodwill

Goodwill, reflecting the excess of the acquisition and incremental costs over the fair value of the purchased assets of both OESC and Sunoco Inc.'s Natural Gas Marketing Business, is not amortised. The carrying amount of goodwill is tested annually for impairment and will be written down to reflect any impairment.

(h) Gas contracts

Gas contracts represent the original fair value of existing sales and supply contracts acquired by the Fund on the acquisition of OESC and Sunoco Inc.'s Natural Gas Marketing Business. These contracts are amortised over their average remaining life.

(i) Revenue recognition

Revenue from the sale of natural gas and electricity is recognised when the commodity is consumed by the end-use customer.

(j) Selling expenses

Costs relating to obtaining gas and electricity sales and purchase contracts are charged to income in the period incurred.

(k) Income taxes

The Fund follows the liability method of tax allocation in accounting for income taxes. Under this method, future income taxes are recognised based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect of a change in the income tax rates on future income tax assets and liabilities is recognised in income in the period that the change occurs.

(l) Per unit amounts

The computation of income and cash flow per unit is based on the weighted average number of units outstanding during the period.

(m) Use of estimates

The preparation of the financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FOR THE YEARS ENDED MARCH 31 – (thousands of dollars except per unit amount)

4. CHANGE IN ACCOUNTING POLICY

The Fund has adopted the recommendations of the new CICA Handbook section 3870, Stock-Based Compensation and Other Stock-Based Payments, effective April 1, 2002. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services as follows:

Employee unit based compensation

The standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. The standard requires that the fair value of employee awards be measured at the grant date and that the compensation cost be recognised as an expense and credited to contributed surplus over the period in which the related employee services are rendered.

Non-employee unit based compensation

The standard requires that all stock-based awards made to non-employees be accounted for using a fair value based method using the unit price and other measurement assumptions at the earliest of, the date at which counterparty performance is complete, the date a commitment for performance by the counterparty is reached, or the date the equity instruments are granted if they are fully vested and non-forfeitable at that date. The standard requires that the compensation cost be recognised (or previous recognition reversed) as an expense and credit (charge) made to contributed surplus in the same period as the services received from the non-employee.

The Fund accounts for all of its employee and non-employee unit-based compensation awards using the fair value based method and is applying this accounting policy retroactively to all awards issued since the Fund was established.

Employee awards are valued at grant date and are not subsequently adjusted for changes in the prices of the underlying unit and other measurement assumptions. Compensation for employee awards without performance conditions is recognised as an expense and a credit to contributed surplus over the related vesting period of the awards. Compensation for employee awards with performance conditions is recognised based on management's best estimate of whether the performance condition will be achieved.

Non-employee awards are valued based on the date the counterparty's performance is complete. Since the measurement date is not known until a period subsequent to the grant date, the awards are revalued at the then-current fair value at the end of each reporting period. The compensation cost is recognised as an expense and charge/credit to contributed surplus in accordance with the terms of the contract with the counterparty.

When options related to the Fund's unit-based compensation are exercised, the amounts previously credited to contributed surplus are reversed and credited to Unitholders' equity. The amount of cash received from plan participants is also credited to Unitholders' equity.

Prior year has been restated to reflect the impact of retroactive application of this change in accounting policy. As a result of this change, contributed surplus at March 31, 2002 increased by $2,045. Net income decreased $2,045 for the year ended March 31, 2002 from that previously reported.

5. SEASONALITY OF OPERATIONS

The Fund's operations are seasonal. Gas consumption by customers is typically highest in the winter quarter, January through March. Gas consumption is lowest in the summer quarter, July through September. Consumption in the third quarter is higher than that in the first quarter. Electricity consumption is typically highest in the winter and summer quarters, January through March and July through September. Electricity consumption is lowest in the fall and spring quarters, October through December and April through June.

6. ACQUISITION OF SUBSIDIARY

On April 30, 2001, the Fund acquired all of the outstanding common shares of OESC for a total consideration of $196,300.

Net Assets Acquired:	
Working capital (including cash of $4,931)	$ (1,321)
Capital assets	196
Gas contracts	171,149
Goodwill	92,139
Less: Future income taxes	(65,863)
	$ 196,300
Consideration:	
Cash	$ 93,800
Units	14,136
Preference shares	88,364
	$ 196,300

7. ACQUISITION OF SUNOCO INC.'S NATURAL GAS MARKETING BUSINESS

On April 5, 2002, the Fund's wholly owned subsidiary, OESC, purchased effective April 1, 2002, certain assets and liabilities of Sunoco Inc.'s Natural Gas Marketing Business, including all of its natural gas customer contracts for $66,000. Pursuant to the agreement, OESC acquired approximately 280,000 residential customer equivalents.

The purchase price has been allocated as follows:

Net Assets acquired:	
Gas delivered in excess of consumption	$ 1,066
Gas contracts	63,618
Goodwill	2,436
Less: Deferred revenues	(1,120)
	$ 66,000
Consideration:	
Cash	$ 66,000

The entire purchase price will be amortised and is deductible at various rates for tax purposes.

8. CAPITAL ASSETS

2003	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 541	$ 98	$ 443
Office equipment	347	62	285
Computer equipment	1,023	207	816
Electricity billing and settlement system	1,163	116	1,047
Leasehold improvements	1,134	159	975
	$ 4,208	**$ 642**	**$ 3,566**

2002	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 218	$ 29	$ 189
Office equipment	147	21	126
Computer equipment	200	29	171
Leasehold improvements	478	54	424
	$ 1,043	**$ 133**	**$ 910**

9. INCOME TAXES

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustee will distribute all taxable income directly earned by the Trust to the Unitholders and deduct such distributions for income tax purposes.

Canadian based corporate subsidiaries are subject to tax on their taxable income at a rate of 38%, (2002 - 41%).

In respect of assets and liabilities where income is taxed directly in the hands of the Unitholders, the tax basis of those assets exceeds the net book value for accounting purposes by an amount of $8,609.

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to the pre-tax income (loss) for OESC and the income tax provision in the financial statements.

FOR THE YEARS ENDED MARCH 31 – (thousands of dollars except per unit amount)

9. INCOME TAXES (CONT'D)

	2003	2002
Net income (loss) before income tax	$ **10,854**	$ (14,862)
Income tax expense (recovery) at the combined basic rate of 38% *(2002 - 41%)*	**4,125**	(6,093)
Taxes on income attributable to Unitholders	**(12,910)**	(7,071)
Large corporations tax	**855**	410
Non-deductible expenses	**1,275**	838
Reduction in future income taxes resulting from reduction in tax rate	**(354)**	(5,004)
Income tax recovery	$ **(7,009)**	$ (16,920)

Components of the Fund's net future income tax liability are as follows:		
Carrying value of gas contracts in excess of tax value	$ **40,229**	$ 45,731
Other	**477**	32
	$ **40,706**	$ 45,763

10. RELATED PARTY TRANSACTIONS

Included in "Accounts receivable" are loans in the amount of $750 to officers of OESC, to assist with the purchase of $1,000 of units of the Fund. The loans are evidenced by promissory notes and carry interest at the prime rate. The interest owing on these loans amounts to $24 as at March 31, 2003. These loans are repayable in full no later than February 15, 2007 and are secured by a pledge in favour of OESC of 83,800 units of the Fund. The market value of the units secured as collateral as at March 31, 2003 is $1,366.

11. UNIT AND SHARE SPLIT

On July 18, 2002, the Unitholders approved a subdivision of the Fund's units on a two for one basis. Trading of the units on a split basis commenced on July 29, 2002. On July 31, 2002 a certificate of amendment was issued to OESC subdividing on a two for one basis all of the outstanding common shares, Class A preference shares and Class B preference shares. All information relating to the units and per unit data, including comparative figures have been adjusted retroactively to reflect the impact of the unit split in these consolidated financial statements.

12. PREFERENCE SHARES OF OESC

Authorised

Unlimited Class A preference shares, non-voting, exchangeable into trust units in accordance with the OESC shareholders' agreement, with no priority on dissolution.

Unlimited Class B preference shares, non-voting, exchangeable into trust units in accordance with the OESC shareholders' agreement, with no priority on dissolution.

The holders of Class A and Class B preference shares are entitled to vote in all votes of Unitholders as if they were the holders of the number of units which they would receive if they exercised their shareholder exchange rights.

Issued and Outstanding	2003 *Shares*	2003	2002 *Shares*	2002
Class A Preference Shares				
Balance, beginning of year	**5,927,588**	$ **59,276**	–	$ –
Issued on acquisition of OESC	–	–	6,914,405	69,144
Share split effective July 31, 2002	**5,927,588**	–	–	–
Balance subsequent to share split	**11,855,176**	$ **59,276**	6,914,405	$ 69,144
Cancelled/exchanged into units	**(5,212,003)**	**(26,060)**	(986,817)	(9,868)
Cancelled/exchanged into Class B preference shares	**(729,434)**	**(3,647)**	–	–
Balance, end of year	**5,913,739**	$ **29,569**	5,927,588	$ 59,276

12. PREFERENCE SHARES OF OESC (CONT'D)

	2003 Shares		2003	2002 Shares		2002
Class B Preference Shares						
Balance, beginning of year	914,549	$	9,146	–	$	–
Issued on acquisition of OESC	–		–	1,922,021		19,220
Share split effective July 31, 2002	914,549		–	–		–
Balance subsequent to share split	1,829,098	$	9,146	1,922,021	$	19,220
Cancelled/exchanged into units	(1,732,468)		(8,663)	(1,007,472)		(10,074)
Exchanged from Class A preference shares	729,434		3,647	–		–
Balance, end of year	826,064	$	4,130	914,549	$	9,146
Combined balance, end of year	6,739,803	$	33,699	6,842,137	$	68,422

The cancellation of preference shares in 2002 resulted in a net gain of $503, which was credited to contributed surplus.

13. TRUST UNITS

An unlimited number of units may be issued. Each unit is transferable, voting and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realised capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

On April 30, 2001, the Fund issued 24,827,148 units at $5.00 per Unit, 22,000,000 for cash and 2,827,148 (post-split) as part of the acquisition of OESC.

On May 16, 2001, the Fund issued 2,200,000 units at $5.00 (post-split) per Unit for cash and cancelled previously issued units (or unit equivalents).

On April 30, 2002, the Fund issued 6,000,000 Subscription Receipts exchangeable into Trust Units for $12.50 (post-split) per Receipt for a total offering of $75 million. All Subscription Receipts have been converted into Trust Units.

Issue expenses for the year amounted to $3,877 (2002 – $8,824).

	2003 Units		2003	2002 Units		2002
Balance, beginning of year	14,423,735	$	119,779	–	$	–
Issue of trust units	3,000,000		71,123	13,513,574		126,312
Unit split approved by the Unitholders on July 18, 2002	17,423,735		–	–		–
Balance subsequent to unit split	34,847,470	$	190,902	13,513,574	$	126,312
Options exercised	1,121,680		7,785	–		–
Exchanged from Class A preference shares	5,212,003		26,060	250,000		2,500
Exchanged from Class B preference shares	1,732,468		8,663	814,072		8,141
Cancelled	–		–	(153,911)		(1,539)
Additional units from exchange of Class B preference shares	105,646		1,120	–		–
Net income	–		17,863	–		2,058
Distributions	–		(44,091)	–		(18,876)
Class B Preference distributions paid	–		(1,120)	–		–
Class B Preference distributions exchangeable into units	–		896	–		1,183
Balance, end of year	43,019,267	$	208,078	14,423,735	$	119,779

The cancellation of units in 2002 resulted in a net gain of $108, which was credited to contributed surplus.

FOR THE YEARS ENDED MARCH 31 – (thousands of dollars except per unit amount)

14. UNIT OPTION PLAN

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of OESC. In accordance with the unit option plan subsequent to the unit split which took effect July 29, 2002, the Fund may grant options to a maximum of 5,650,000 units. As at March 31, 2003, there are 3,731,987 options outstanding and 623,000 options are available for grant under the plan. The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest as to one-third of the units granted on each of the first, second and third anniversaries of the date of the grant and expire on the fifth anniversary date of the grant date, except for one million options which vest on the first, second and third anniversary of the day when OESC achieves certain specified contracted flowing customer base of megawatts of electricity.

A summary of the status of the Fund's unit option plan is outlined below.

	Outstanding Options	*Range of Exercise prices*	*Weighted Average Exercise Price*[1]	*Weighted Average Grant Date Fair Value*[2]
Opening, April 1, 2001	–			
Granted	2,448,500	\$5.00 – \$12.18	\$6.65	1.87
Outstanding, March 31, 2002	2,448,500			
Unit split approved by Unitholders July 18, 2002	2,448,500			
Outstanding post-split	4,897,000	\$5.00 – \$12.18	\$6.65	
Granted	130,000	\$14.58 – \$15.15	\$15.11	1.67
Forfeited/cancelled	(173,333)	\$5.00 – \$6.10	\$6.02	
Exercised	(1,121,680)	\$5.00 – \$10.02	\$5.12	
Balance, end of year	3,731,987	\$5.00 – \$15.15	\$7.43	

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	*Number Outstanding*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*	*Number Exercisable*	*Weighted Average Exercise Price*
\$5.00 – \$6.48	2,106,655	3.09	\$5.04	13,333	\$5.00
\$8.48 – \$12.18	1,495,332	3.84	\$10.14	163,998	\$10.40
\$14.58 – \$15.15	130,000	4.24	\$15.11		
Balance, end of year	3,731,987	3.43	\$7.43	177,331	\$10.00

Options Available for Grant	
Available for grant	5,650,000
Less: granted prior to March 31, 2002	(4,897,000)
Less: granted during the year	(130,000)
Balance, end of year	623,000

[1] *The weighted average exercise price is calculated by dividing the exercise price of options granted, by the number of options granted.*
[2] *The weighted average grant date fair value is calculated by dividing the fair value of options granted, by the number of options granted.*

The Fund uses a binomial option pricing model to estimate the fair values. The binomial model was chosen because of the yield associated with the units. Fair values of employee unit options are estimated at grant date. Fair values of non-employee unit options are estimated and revalued each reporting period until a measurement date is achieved. The following weighted average assumptions have been used in the valuations:

Risk free rate	4.0% – 5.6%
Expected volatility	22.80% – 25.66%
Expected life	3 years
Expected distributions	\$0.60 – \$1.35 per year

Total amounts credited to contributed surplus in respect of unit-based compensation awards amounted to \$3,270 for the year ended March 31, 2003.

Total amounts charged to contributed surplus in respect of awards exercised during the year ended March 31, 2003 amounted to \$2,041.

Cash received from options exercised for the year ended March 31, 2003 amounted to \$5,744.

15. FINANCIAL INSTRUMENTS

(a) Fair value

Financial instruments include cash and cash equivalents, accounts receivable, an operating line of credit and accounts payable and accrued liabilities. The carrying value of these instruments approximates their fair value due to their short-term liquidity.

(b) Interest rate risk

On March 6, 2003, OESC entered into a $10,000 operating facility agreement to finance general requirements. During the year, OESC issued a $1,600 letter of credit to a supplier of electricity. The funds are pledged as collateral against potential contingent liabilities associated with commodity hedging. The letter of credit was applied against the operating line. The operating line of credit bears interest at bank prime plus 1/2%. No amounts have been drawn against the operating facility agreement at March 31, 2003.

16. INCOME AND CASH FLOW PER UNIT

	2003	2002 Restated Note 4
Basic income per unit		
Net income	$ 17,863	$ 2,058
Class B Preference distributions exchangeable into units	(896)	(1,183)
Net income available to Unitholders	$ 16,967	$ 875
Average number of units outstanding	36,372	27,075
Basic income per unit	$ 0.47	$ 0.03
Diluted income per unit[1]		
Net income	$ 17,863	$ 2,058
Management incentive program (net of tax – 38%), *(2002 – 41%)*	6,896	4,693
Diluted income available to Unitholders	$ 24,759	$ 6,751
Average number of units outstanding	36,372	27,075
Dilutive effect of:		
Class A Preference shares	10,352	12,424
Class B Preference shares	2,249	3,023
Class B Preference shares additional unit entitlement	97	50
Unit options	1,827	1,991
Units outstanding on a diluted basis	50,897	44,563
Diluted income per unit	$ 0.44	$ 0.03
Basic cash flow per unit		
Cash flow from operations	$ 63,897	$ 23,241
Average number of units outstanding	36,372	27,075
Basic cash flow per unit	$ 1.76	$ 0.86
Diluted cash flow per unit[1]		
Cash flow from operations	$ 63,897	$ 23,241
Management incentive program (net of tax – 38%), *(2002 – 41%)*	6,896	4,693
Cash flow available to Unitholders	$ 70,793	$ 27,934
Units outstanding on a diluted basis	50,897	44,563
Diluted cash flow per unit	$ 1.39	$ 0.63

[1] Conversion of convertible securities is anti-dilutive to income per Unit for the year ended March 31, 2002. For the year ended March 31, 2003, conversion of Class A preference shares is anti-dilutive but conversion of Class B preference shares and options is dilutive. Accordingly, for the purpose of calculating diluted income per unit, it is assumed that Class A preference shares are not converted.

FOR THE YEARS ENDED MARCH 31 – (thousands of dollars except per unit amount)

17. REPORTABLE BUSINESS SEGMENTS

OESC operates in two reportable business segments, which are the reselling of gas and electricity to end-use customers. OESC operates in two geographic areas, Ontario and Manitoba. The results from operations in Manitoba were insignificant for the year ended March 31, 2003 and therefore have not been separately disclosed.

OESC evaluates segment performance based on gross margin.

OESC business segments are strategic business units that offer a distinct product. Each segment has senior level executives responsible for the performance of the segment.

No comparative information has been provided because OESC only operated in one business segment and one geographic area in fiscal 2002, being the reselling of gas to end-use customers in Ontario.

The following table presents OESC's results from continuing operations by reportable segment:

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 484,795	$ 53,873	$ –	$ 538,668
Gross Margin	$ 109,836	$ 9,248	$ –	$ 119,084
Expenses			(108,718)	(108,718)
Other income			488	488
Recovery of income tax			7,009	7,009
Net income (loss)	$ 109,836	$ 9,248	$ (101,221)	$ 17,863
Additions to capital assets and goodwill	$ 2,436	$ 1,441	$ 1,725	$ 5,602
Total assets	$ 296,857	$ 6,250	$ 37,839	$ 340,946

18. COMMITMENTS

(i) Commitments for premises and equipment under lease obligation for the next five years are as follows:

2004	$ 1,315
2005	1,322
2006	1,201
2007	1,040
2008	854
	$ 5,732

(ii) OESC is committed under long-term gas and electricity supply contracts with various suppliers for the next five years as follows:

2004	$ 350,697
2005	303,315
2006	245,916
2007	175,830
2008	86,345
	$ 1,162,103

OESC is also committed under long-term contracts with customers to supply gas and electricity. Both the purchase and sales contracts have various expiry dates and renewal options.

Gas and electricity are delivered to the end-use customers by local distribution companies under contract with OESC. OESC has entered into letter agreements for the assignment of local distribution company proceeds to which it would otherwise be entitled in favour of Coral Energy Canada Inc.

19. ADJUSTMENTS REQUIRED TO REFLECT NET CASH RECEIPTS FROM GAS SALES

	2003	2002
Accrued gas accounts payable	$ 34,510	$ (13,940)
Gas in storage	2,128	(2,128)
Gas delivered in excess of consumption	1,066	–
Deferred revenues	(1,120)	–
Unbilled revenues	(46,588)	17,948
	$ (10,004)	$ 1,880

20. CHANGES IN NON-CASH WORKING CAPITAL

	2003	2002
Management incentive program payable	$ 134	$ 1,261
Prepaid expenses	(979)	(21)
Corporate taxes payable	(2,605)	3,140
Accounts payable and accrued liabilities	337	(3,719)
Accounts receivable	(12,637)	(1,209)
	$ (15,750)	$ (548)

21. ECONOMIC DEPENDENCE

A significant portion of gas and electricity purchases by OESC are contracted with Coral Energy Canada Inc., an affiliate of Shell Oil Company, and gas and electricity is delivered to end-use customers by local distribution companies.

The ongoing operations of OESC depend on the ability of Coral Energy Canada Inc. to service the natural gas and electricity sales agreement and on the ability of the local distribution companies to deliver gas and electricity to end-use customers.

The amount and volume of transactions with a single commodity supplier is normal for an enterprise in the business of gas and electricity marketing.

22. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

ENERGY SAVINGS INCOME FUND

OFFICERS AND DIRECTORS

REBECCA MACDONALD
Chair & Chief Executive Officer, Ontario Energy Savings Corp.
Rebecca MacDonald has been involved in the deregulation of natural gas for 12 years. Rebecca became an officer of the Corporation in January 2000. Prior to January 2000, Ms. MacDonald was the President of Energy Marketing Inc. (gas marketing company).

BRENNAN R. MULCAHY
Senior Executive Vice President, Operations & Chief Operating Officer, Ontario Energy Savings Corp.
Brennan Mulcahy has been involved in the deregulation of natural gas for 11 years. Brennan joined the Corporation in July 1997. From January 1997 to July 1997, he served as a marketer for Consolidated Gas Limited (gas marketing company).

JAMES. H. MCKELVIE, C.A.
Senior Executive Vice President & Chief Financial Officer, Ontario Energy Savings Corp.
Jim McKelvie became an officer of the Corporation in October, 2000. Prior to August 1997, Mr. McKelvie served as Managing Director, Vice President Finance and a director of Clairvest Group Inc. (merchant banking), after which he served as Chairman of Ketch Energy Limited (oil and gas company) a position he continues to hold.

HUGH D. SEGAL
President, Institute for Research on Public Policy
Hugh Segal became president for the Institute for Research on Public Policy in July 1999. From November 1998 to July 1999, Hugh Segal was a Senior Fellow, School of Policy Studies at Queen's University.

BRIAN R.D. SMITH
Federal Chief Treaty Negotiator and Energy Consultant
Brian Smith is the Federal Chief Treaty Negotiator and Energy Consultant, a position he has held since June of 2001. Prior to this, Mr. Smith was the Chair of British Columbia Hydro, a position he held from 1996 to June, 2001.

THE HON. MICHAEL J.L. KIRBY
Member of Senate of Canada and Corporate Director
The Honourable Michael Kirby has been a member of the Senate of Canada since 1984. He presently serves as Chair of the Standing Senate Committee on Social Affairs, Science and Technology.

JOHN A. BRUSSA
Partner, Burnet, Duckworth & Palmer LLP
John Brussa is a partner in the Calgary-based energy law firm of Burnet, Duckworth & Palmer, specializing in the area of energy and taxation. He is also a director of a number of energy and energy-related corporations and income funds.

Peter Clark has decided not to stand for re-election to the board for the coming year. The Fund would like to thank Peter for his dedication and contribution over the years.

AUDITORS
Deloitte & Touche LLP, Toronto, ON, Canada

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James H. McKelvie, C.A.
Senior Executive Vice President & Chief Financial Officer

FOR FURTHER INFORMATION CONTACT
Rebecca MacDonald
Chair & Chief Executive Officer

Brennan R. Mulcahy
Senior Executive Vice President & Chief Operating Officer

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TRANSFER AGENT AND REGISTRAR
Computershare Trust Company of Canada
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Toronto, Ontario M5J 2Y1

ANNUAL GENERAL MEETING
Friday June 27, 2003
10:00 am
TSX Conference Centre, Auditorium

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